

*Combined Financial Statements
Year Ended
September 30, 2009*

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

Goodman

& COMPANY

Certified Public Accountants
Specialized Services
Business Solutions

Gateway Homes, Inc., Gateway Farms, Inc., and Gateway Services, Inc.

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Certified Public Accountants
Specialized Services
Business Solutions

Report of Independent Auditors

Board of Directors
*Gateway Homes, Inc.,
Gateway Farms, Inc.,
and Gateway Services, Inc.*

We have audited the accompanying combined statement of financial position of *Gateway Homes, Inc., Gateway Farms, Inc., and Gateway Services, Inc.* as of September 30, 2009, and the related combined statements of activities, functional expenses and cash flows for the year then ended. These combined financial statements are the responsibility of the management of *Gateway Homes, Inc., Gateway Farms, Inc., and Gateway Services, Inc.* (collectively, Gateway). Our responsibility is to express an opinion on these combined financial statements based on our audit. The prior year summarized comparative information has been derived from the combined financial statements for the year ended September 30, 2008, that were audited by other auditors, whose report thereon, dated December 5, 2008, expressed an unqualified opinion on those combined financial statements.

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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our 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., Gateway Farms, Inc., and Gateway Services, Inc.* as of September 30, 2009, and the changes in their combined net assets and their combined cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Richmond, Virginia
November 12, 2009

4510 Cox Road, Suite 200
Glen Allen, VA 23060-3394

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

Combined Statement of Financial Position

September 30, 2009 and 2008

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Gateway Homes, Inc., Gateway Farms, Inc., and Gateway Services, Inc.

Combined Statement of Financial Position

September 30, 2009, with Comparative Totals for 2008

Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2009	2008
Current assets					
Cash and cash equivalents	\$ 311,065	\$ -	\$ -	\$ 311,065	\$ 64,814
Cash - HUD	152,207	-	-	152,207	132,054
Accounts receivable	74,017	-	-	74,017	35,603
Promises to give - current portion	6,500	52,000	-	58,500	24,689
Prepaid expenses	10,649	-	-	10,649	9,515
Investments - current	-	140,000	-	140,000	140,000
Total current assets	554,438	192,000	-	746,438	406,675
Property and equipment					
Land	120,529	-	-	120,529	120,529
Land improvements	59,900	-	-	59,900	59,900
Buildings and improvements	2,522,446	-	-	2,522,446	2,522,446
Furniture and equipment	271,945	-	-	271,945	271,386
Vehicles	131,456	-	-	131,456	126,857
	3,106,276	-	-	3,106,276	3,101,118
Less - accumulated depreciation	(1,035,555)	-	-	(1,035,555)	(934,766)
Property and equipment - net	2,070,721	-	-	2,070,721	2,166,352
Other assets					
Investments - long-term	12,700	413,194	5,500	431,394	737,349
Interfund receivable (payable)	(533,000)	533,000	-	-	-
Promises to give - net - long-term	-	117,622	-	117,622	40,000
	(520,300)	1,063,816	5,500	549,016	777,349
	\$ 2,104,859	\$ 1,255,816	\$ 5,500	\$ 3,366,175	\$ 3,350,376

Liabilities and Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2009	2008
Current liabilities					
Accounts payable and accrued expenses	\$ 36,592	\$ -	\$ -	\$ 36,592	\$ 21,255
Charitable gift annuity obligation - current	-	140,000	-	140,000	140,000
Mortgage payable - current	6,611	-	-	6,611	6,052
Total current liabilities	43,203	140,000	-	183,203	167,307
Long-term liabilities					
Charitable gift annuity obligation - less current portion	-	446,680	-	446,680	481,387
Mortgage payable - less current portion	341,077	-	-	341,077	347,688
Total liabilities	384,280	586,680	-	970,960	996,382
Net assets	1,720,579	669,136	5,500	2,395,215	2,353,994
	\$2,104,859	\$ 1,255,816	\$ 5,500	\$ 3,366,175	\$ 3,350,376

The accompanying notes are an integral part of these combined financial statements.

Gateway Homes, Inc., Gateway Farms, Inc., and Gateway Services, Inc.

Combined Statement of Activities

Year Ended September 30, 2009 with Comparative Totals for 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2009	2008
Revenue, gains, and other support					
Resident fees	\$ 1,034,238	\$ -	\$ -	\$ 1,034,238	\$ 788,863
Contributions	235,821	278,122	-	513,943	346,165
Federal Housing Assistance	101,258	-	-	101,258	97,654
Investment loss	(510)	(84,157)	-	(84,667)	(179,245)
Loss on disposal of property and equipment	(950)	-	-	(950)	(5,002)
	1,369,857	193,965	-	1,563,822	1,048,435
Change in value of charitable gift annuity obligation	-	(105,293)	-	(105,293)	(126,510)
Net assets released from restrictions	171,587	(171,587)	-	-	-
Total revenue, gains, and other support	1,541,444	(82,915)	-	1,458,529	921,925
Expenses					
Program services	1,193,935	-	-	1,193,935	1,151,907
Management and general	120,731	-	-	120,731	123,533
Fundraising	102,642	-	-	102,642	114,833
Total expenses	1,417,308	-	-	1,417,308	1,390,273
Change in net assets	124,136	(82,915)	-	41,221	(468,348)
Net assets - beginning of year	1,596,443	752,051	5,500	2,353,994	2,822,342
Net assets - end of year	\$ 1,720,579	\$ 669,136	\$ 5,500	\$ 2,395,215	\$ 2,353,994

The accompanying notes are an integral part of these combined financial statements.

Gateway Homes, Inc., Gateway Farms, Inc., and Gateway Services, Inc.

Combined Statement of Functional Expenses

Year Ended September 30, 2009 with Comparative Totals for 2008

	Program Services	General and Administrative	Fundraising	Total	
				2009	2008
Salaries	\$ 706,153	\$ 56,279	\$ 79,756	\$ 842,188	\$ 788,905
Payroll taxes	56,210	4,552	6,499	67,261	66,532
Employee benefits	52,310	1,162	559	54,031	53,567
Total salaries and related expenses	814,673	61,993	86,814	963,480	909,004
Telephone and utilities	72,422	3,345	-	75,767	77,962
Supplies	53,008	3,832	-	56,840	65,240
Insurance	26,466	19,688	-	46,154	44,734
Repairs and maintenance	35,775	-	-	35,775	36,299
Interest	31,107	-	-	31,107	31,623
Professional fees	16,028	8,753	-	24,781	24,756
Travel	19,877	1,602	-	21,479	25,722
Development	-	-	15,828	15,828	24,425
Food	14,196	-	-	14,196	15,222
Rent	-	12,692	-	12,692	12,322
Staff development	4,947	1,966	-	6,913	12,655
Miscellaneous	1,580	2,362	-	3,942	1,536
Postage and printing	7	3,213	-	3,220	2,885
Taxes and licenses	520	1,285	-	1,805	656
Total expenses before depreciation	1,090,606	120,731	102,642	1,313,979	1,285,041
Depreciation	103,329	-	-	103,329	105,232
	\$ 1,193,935	\$ 120,731	\$ 102,642	\$ 1,417,308	\$ 1,390,273

The accompanying notes are an integral part of these combined financial statements.

Gateway Homes, Inc., Gateway Farms, Inc., and Gateway Services, Inc.

Combined Statement of Cash Flows

Year Ended September 30, 2009 with Comparative Totals for 2008

	2009	2008
Cash flows from operating activities		
Change in net assets	\$ 41,221	\$ (468,348)
Adjustments to reconcile to net cash from operating activities:		
Depreciation	103,329	105,232
Change in value of charitable gift annuity obligation	105,293	126,510
Loss on disposal of property and equipment	950	5,002
Donated property and equipment	(4,600)	-
Realized (gain) loss on investments	98,058	(49,616)
Unrealized (gain) loss on investments	(2,901)	241,406
Change in:		
Accounts receivables	(38,414)	26,286
Promises to give	(111,433)	(6,163)
Prepaid expenses	(1,134)	930
Accounts payable and accrued expenses	15,337	(2,622)
Net cash from operating activities	205,706	(21,383)
Cash flows from investing activities		
Net deposits to reserves for replacements, minimum capital, and interest retained in HUD accounts	(20,153)	(7,459)
Proceeds from sale of equipment	-	1,800
Purchase of property and equipment	(4,048)	(75,519)
Proceeds from sale of investments	645,627	468,100
Purchase of investments	(434,829)	(289,874)
Net cash from investing activities	186,597	97,048
Cash flows from financing activities		
Principal payments on mortgage payable	(6,052)	(5,540)
Charitable gift annuity obligation distributions	(140,000)	(140,000)
Net cash from financing activities	(146,052)	(145,540)
Net change in cash and cash equivalents	246,251	(69,875)
Cash and cash equivalents - beginning of year	64,814	134,689
Cash and cash equivalents - end of year	\$ 311,065	\$ 64,814
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 31,107	\$ 31,664

The accompanying notes are an integral part of these financial statements.

Gateway Homes, Inc., Gateway Farms, Inc., and Gateway Services, Inc.

Notes to Combined Financial Statements

September 30, 2009

1. Organization and 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, Inc.* was established to serve as a rural residential facility. *Gateway Services, Inc.* was established to serve as the funding operation for all Gateway operations. The three corporations share common staff and are collectively referred to herein as Gateway. All intercompany transactions and balances are eliminated in these combined financial statements.

2. Summary of Significant Accounting Policies

Basis of Presentation

Gateway 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. The financial statements report amounts separately by class of net assets as follows:

Unrestricted amounts are those currently available at the discretion of Gateway's Board of Directors for use in the organization's operations. Revenues and support are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets.

Temporarily restricted amounts are those which are stipulated by donors for specific operating purposes or for the acquisition of equipment. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets are those amounts resulting from support and revenue whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization.

Cash Equivalents

Gateway considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments with 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. The balances were insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at September 30, 2009. As of that date, Gateway had cash balances in excess of federally insured limits of \$221,009. In evaluating this credit risk, Gateway periodically evaluates the stability of these financial institutions.

Contributions

Contributions which include unconditional promises to give, such as pledges, are recognized as revenues in the period made at their fair values. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Contributed Materials and Services

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 received contributed services of \$403 for legal services, and contributed depreciable material valued at \$4,600 in 2009. The contributed services and contributed materials are included in contributions. Expenses related to the contributed services are included in professional fees, while the contributed materials are included in property and equipment.

In addition, Gateway received contributed services that have not been recognized in the 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.

Property and Equipment

Property and equipment are recorded at cost. Gateway follows the practice of capitalizing all significant acquisitions or betterments of property and equipment. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	15 – 20 years
Buildings and improvements	10 – 40 years
Furniture and equipment	3 – 10 years
Vehicles	5 years

Income Taxes

No provision for income taxes has been made in the accompanying combined financial statements since the Gateway organizations are exempt under Internal Revenue Code Section 501(c)(3) and the tax statutes of the Commonwealth of Virginia.

Functional Expenses

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

Investments

Gateway reports equity securities with readily determinable fair values and all investments in debt securities at fair value. Unrealized gains and losses are included in the combined statement of activities.

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.

Subsequent Events

In preparing the combined financial statements, Gateway has evaluated events and transactions for potential recognition or disclosure through November 12, 2009, the date the combined financial statements were available to be issued.

3. Charitable Gift Annuity Obligation

During fiscal year 2001, Gateway was the recipient of a charitable gift annuity obligation consisting of rental real estate located in Chesterfield County, Virginia. The property's fair market value was appraised at \$2,000,000 on the date of the gift. Under the terms of the agreement, Gateway is required to make quarterly annuity distributions totaling \$140,000 per year to the donor and the donor's spouse over their lifetimes.

Gateway sold the property in December 2001 for \$1,900,000. The proceeds were invested according to Gateway's investment policy and will remain temporarily restricted until the annuity obligations are satisfied.

A summary of the change in value of the charitable gift and annuity obligation for the year ended September 30, 2009 is as follows:

	Charitable gift	Annuity obligation	Charitable gift - net
Balance – beginning of year	\$ 1,310,351	\$ 621,387	\$ 688,964
Annuity payments	(140,000)	(140,000)	-
Investment loss	(84,157)	-	(84,157)
Change in value	-	105,293	(105,293)
Balance – end of year	\$ 1,086,194	\$ 586,680	\$ 499,514

Estimated future annuity obligations based on the life expectancies of the donor and the donor's spouse are discounted at 7%. As of September 30, 2009, the Board of Directors had borrowed \$533,000 from the temporarily restricted charitable gift investment assets and transferred these funds into unrestricted net assets in order to fund operating activities. This amount is reflected as interfund receivable (payable) from in the combined statement of financial position.

4. Investments

Investments associated with the charitable gift annuity obligation and the endowment are as follows as of September 30, 2009:

	Cost	Market Value	Unrealized Gain (Loss)
Charitable gift annuity obligation			
Money market funds	\$ 44,764	\$ 44,764	\$ -
Common stock	415,830	467,681	51,851
U.S. government obligations	39,927	40,749	822
Endowment			
Mutual funds	23,807	18,200	(5,607)
	<u>\$ 524,328</u>	<u>\$ 571,394</u>	<u>\$ 47,066</u>

Investment income (loss) consists of the following:

Interest and dividend income	\$ 22,491
Unrealized losses	(2,901)
Realized losses	(98,058)
Investment expenses	(6,199)
	<u>\$ (84,667)</u>

5. Fair Value Measurements

As of September 30, 2009, Gateway adopted accounting standards which 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.

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 are used to maximize the use of observable 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, 2009.

Government obligations, mutual funds and equity securities: 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 sets forth by level, within the fair value hierarchy, Gateway's assets at fair value as of September 30, 2009:

Assets at Fair Value as of September 30, 2009				
	Level 1	Level 2	Level 3	Total
Government obligations	\$ 40,749	\$ -	\$ -	\$ 40,749
Mutual funds	62,964	-	-	62,964
Equity securities	467,681	-	-	467,681
Promises to give	-	-	176,122	176,122
Totals assets at fair value	\$ 571,394	\$ -	\$ 176,122	\$ 747,516

Level 3 Gains and Losses

The table below sets forth a summary of changes in the fair value of Gateway's level 3 assets for 2009:

Balance – beginning of year	\$ 67,689
New pledges	181,000
Pledge payments	(64,189)
Change in fair value	<u>(8,378)</u>
Balance – end of year	<u>\$ 176,122</u>

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

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. This assistance provides approximately \$8,000 per month for funding the debt service and a portion of Gateway's operating expenses.

The regulatory agreement with HUD requires that *Gateway Farms, Inc.* establish and maintain a reserve fund for replacements. HUD also requires *Gateway Farms, Inc.* to establish a reserve for residual receipts. The balances in the respective reserve accounts at September 30, 2009, are \$149,377 and \$2,830. These balances can only be withdrawn with HUD approval.

7. Promises to Give

Promises to give consist of the following at September 30, 2009:

Unrestricted	\$ 6,500
Restricted for Life Skills and Education Program	40,000
Restricted for Residential Treatment Program	7,500
Restricted to programs and maintenance for Ramona Respress Center	<u>130,500</u>
Total promises to give	<u>\$ 184,500</u>

Gateway expects that contributors will remit these contributions as follows:

Due within one year	\$ 58,500
Due within two – five years	<u>126,000</u>
	184,500
Less – discount	<u>8,378</u>
Fair value	<u>\$ 176,122</u>

In order to simplify their accounting process for promises to give, Gateway has elected to record all promises to give at fair value effective for the fiscal year 2009. The process utilizes the income approach with discounted cash flows, providing a single discounted value for all promises to give. The fair value of items held at the election date approximated the carrying amount of these items immediately before electing the fair value option. Therefore, no cumulative effect of the remeasurement is presented in the combined financial statements.

The fair value adjustment for 2009 was \$8,378 and is included in contribution income in the combined statement of activities. The discount rate for 2009 was 3.5%. No changes in the fair value measurement were attributed to instrument specific credit risk.

8. Mortgage Payable

The mortgage payable to HUD is collateralized by *Gateway Farms, Inc.*'s 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, 2009 was \$347,688. Future minimum principal payments as of September 30, 2009 are as follows:

2010	\$ 6,611
2011	7,223
2012	7,890
2013	8,620
2014	9,417
Thereafter	<u>307,927</u>
	<u>\$ 347,688</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.

9. Operating Leases

Gateway leases administrative office space under an agreement that expires December 31, 2010. Lease expense for 2009 was \$12,692. The lease has an escalation clause.

Future minimum lease obligations as of September 30, 2009 are as follows:

2010	\$	13,072
2011		<u>3,292</u>
	\$	<u>16,364</u>

10. Restrictions on Net Assets

Temporarily restricted net assets at September 30, 2009 consist of the following:

Charitable gift	\$	1,086,194
Annuity obligation		(586,680)
Restricted to programs and maintenance for Ramona Respress Center		129,622
Life skills training		<u>40,000</u>
	\$	<u>669,136</u>

Permanently restricted net assets at September 30, 2009 consist of the following:

Endowment requiring income to be used for operation of programs	\$	<u>5,500</u>
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Gateway's endowment consists of one fund. At September 30, 2009, \$5,500 of this fund is permanently restricted by the donor and the income is used for operations of programs. There were no additions to the fund during 2009. 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.

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. Currently, Gateway has no formal spending or investing policy for this fund. As the number of endowment funds grow, a spending and investing policy will be formalized by the board.

11. 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 1% of gross wages for 2009, in the amount of \$6,855.

12. Related Party Transactions

A member of the Board of Directors is the account officer for Gateway's investment accounts held by a third party. A portion of the investment fees, which totaled \$6,199 for 2009, is paid to the board member by the investment company.

13. Summarized Financial Information for 2008

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Gateway's combined financial statements for the year ended September 30, 2008, from which the summarized information was derived.

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