GATEWAY CENTER OF MONTEREY COUNTY, INC.
PACIFIC GROVE, CALIFORNIA

FINANCIAL STATEMENTS
JUNE 30, 2021

GATEWAY CENTER OF MONTEREY COUNTY, INC.
PACIFIC GROVE, CALIFORNIA

TABLE OF CONTENTS
JUNE 30, 2021

Rojas & Associates, CPAs

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To the Board of Directors
Gateway Center of Monterey County, Inc.
Pacific Grove, California

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of GATEWAY CENTER OF MONTEREY COUNTY, INC. (a California non-profit corporation), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gateway Center of Monterey County, Inc. as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ROJAS & ASSOCIATES, CPAs

Rojas & Associates, CPAs

Sacramento, California
December 28, 2021

GATEWAY CENTER OF MONTEREY COUNTY, INC.
PACIFIC GROVE, CALIFORNIA

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021

ASSETS	
Current Assets:	
Cash and cash equivalents	$ 2,535,976
Investments	28,510
Accounts receivable	429,042
Prepaid expenses	29,286
Restricted cash- client trust finds	41,337
Total current assets	3,064,151
FIXED ASSETS	
Property, plant and equipment, at cost	4,138,435
Less accumulated depreciation	(2,343,193)
Net fixed assets	1,795,242
OTHER ASSETS	
Deposits	2,751
TOTAL ASSETS	$ 4,862,144
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	$ 64,301
Accrued payroll expenses	180,148
Client trust funds	41,337
Mortgage payable, current portion	67,605
Total current liabilities	353,391
Long-term Liabilities:	
Mortgage payable, net of loan fees	277,837
Total long-term liabilities	277,837
TOTAL LIABILITIES	631,228
Net Assets:	
Without donor restrictions	
Undesignated	4,230,916
TOTAL NET ASSETS	4,230,916
TOTAL LIABILITIES AND NET ASSETS	$ 4,862,144

GATEWAY CENTER OF MONTEREY COUNTY, INC.
PACIFIC GROVE, CALIFORNIA

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2021

	Without Donor Restriction	With Donor Restriction	Total
SUPPORT AND REVENUE			
Fees for services	$ 4,881,580	$ 0	$ 4,881,510
Grant	14,000	0	14,000
Contributions	251,817	0	251,817
Special events, net	3,256	0	3,256
Investment income	4,429	0	4,429
Sale of Forest Hill, net	923,220	0	923,220
PPP Loan Forgiveness	670,200	0	670,200
Other income	194,774	0	194,774
Net assets released from restrictions			
Restrictions satisfied by expenditure	36,437	(36,437)	0
Total revenues and support	6,979,713	(36,437)	6,943,276
EXPENSES			
Program services	4,920,287	0	4,920,287
Supporting services:			
General and administrative	806,499	0	806,499
Loss on disposal of fixed assets	8,265	0	8,265
Total expenses	5,735,051	0	5,735,051
CHANGE IN NET ASSETS	1,244,662	36,437	1,208,225
NET ASSETS			
Net assets, as of the beginning of the year	2,986,254	36,437	3,022,691
Net assets, as of the end of the year	$ 4,230,916	$ 0	$ 4,230,916

GATEWAY CENTER OF MONTEREY COUNTY, INC.
PACIFIC GROVE, CALIFORNIA

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

	Programs	General and Administrative	Total
Auto expenses	$ 57,717	$ 9,015	$ 66,732
Communications	23,234	3,629	26,863
Computer expense	28,376	4,432	32,808
Consumer costs	17,421	0	17,421
Depreciation	119,573	18,677	138,250
Employee benefits	502,688	78,518	581,206
Food supplies	54,825	0	54,825
Hiring and training	39,115	6,110	45,225
Insurance - general	36,018	5,626	41,644
Insurance - workers comp	86,142	13,455	99,597
Interest expense	0	18,640	18,640
Licenses and permits	56,491	0	56,491
Maintenance	121,223	18,935	140,158
Miscellaneous	33,886	56,601	90,487
Payroll taxes	240,412	37,551	277,963
Professional fees	285,489	65,848	351,337
Quality assurance fee	69,253	0	69,253
Rent	43,689	6,824	50,513
Salaries and wages	2,848,016	444,848	3,292,864
Supplies	163,973	3,303	167,276
Utilities	92,746	14,487	107,233
Total Expenses	$4,920,287	$ 806,499	$5,726,786

See independent auditors' report and notes to financial statements

GATEWAY CENTER OF MONTEREY COUNTY, INC.
PACIFIC GROVE, CALIFORNIA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 1,208,225
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	138,250
Amortization	875
PPP Loan forgiveness	(670,200)
Net realized and unrealized gain on investments	(46)
Gain on sale of Forest Hill	(923,220)
Loss on disposal of fixed assets	8,265
(Increase) decrease in current assets	
Accounts receivable	76,318
Prepaid expenses	89,502
Increase (decrease) in current liabilities	
Accounts payable	(62,900)
Accrued payroll liabilities	(46,307)
Accrued liabilities	7,309
Deferred revenue	(34,167)
Net cash used in operating activities	(208,096)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(27,397)
Proceeds from sales of investments	135,000
Purchase of fixed assets	(68,612)
Proceeds from sale of Forest Hill	1,102,965
Net cash provided by investing activities	1,141,956
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on mortgage payable	(148,562)
Net cash used in financing activities	(148,562)
Net increase in cash, cash equivalents and restricted cash	785,298
CHANGE IN CASH AND CASH EQUIVALENTS	
Cash, cash equivalents and restricted cash, beginning	1,792,015
Cash, cash equivalents and restricted cash, ending	$ 2,577,313
Summary of cash, cash equivalents and restricted cash	
Cash	$ 2,535,976
Restricted cash- client trust funds	41,337
Total cash, cash equivalents and restricted cash	$ 2,577,313
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	$ 18,640

See independent auditors’ report and notes to financial statements

NOTE 1. NATURE OF OPERATIONS

Gateway Center of Monterey Country, Inc. (the Organization) is a non-profit California corporation exempt from U.S. and California income tax. The Organization was formed in 1979 to provide residential, vocational, educational, and social programs designed to assist developmentally disabled individuals to achieve their maximum potential.

The Organization is governed by a Board of Directors. The Organization's principal sources of revenue are fees received from the San Andreas Regional Center (including Supplemental Security Income (SSI) payments to which the resident consumers are entitled), Medi-Cal (Central California Alliance), and private grants and donations from the consumers' families and others.

The Organization generates a portion its revenues from clients referred by regional centers approved by the California Department of Developmental Services. The majority of these revenues are generated from negotiated rate contracts, therefore, compliance with the requirement that not more than 15% of funds received from negotiated rate contracts be spent on administrative expenses is necessary for these revenues.

Negotiated rate contracts require that not more than 15% of funds received from negotiated rate contracts be spent on administrative expenses. Administrative overhead expenses are allocated between direct and indirect costs based on personnel time spent on or specific identification of the goods or services to revenue generating activities. Administrative costs are allocated pro rata between revenues generated from negotiated and non-negotiated contracts as the administrative costs incurred are deemed to benefit all revenues sources equally. The Organization has reviewed the allocation of its expenses between direct and administrative costs for compliance and believes no amounts are owed to regional centers.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America; consequently, revenues are recognized when earned and expenses are recognized when obligations are incurred.

Cash and cash equivalents consist of cash on hand, cash in bank accounts, and cash deposits held within investment custodial accounts. Restricted cash consists of client funds held in trust. Cash, cash equivalents and restricted cash are considered cash on the statement of cash flows.

Trade accounts receivable and notes receivable are recorded net of an allowance for expected losses. The allowances are estimated from historical performance and projection of trends. The Organization considers its receivables to be fully collectable, and accordingly no allowance for doubtful accounts is considered necessary at June 30, 2021.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets
The Organization has classified the individual funds according to donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net Assets With Donor Restrictions – Net assets subject to stipulation imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the non-profit organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Use of Estimates
Financial statements prepared in accordance with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes
The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and similar provision in the California tax codes. The Organization qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A) for an organization that has been classified as not a private foundation under IRC Section 509(a)(2).

The Organization files its Form 990 in the U.S. federal jurisdiction, the California Franchise Tax Board, and the office of the state's Attorney General for the state of California.

The Organization had no interest and penalties related to income taxes for the year ended June 30, 2021. The Organization's federal returns are subjected to examination generally for the three years after they are filed, and its state returns are subject to examination generally for four years after they are filed.

The Organization believes that it has appropriate support for all tax positions taken and does not have any uncertain tax positions that are material to the financial statements for the year ended June 30, 2021.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk

The Organization places its cash and cash equivalents with high-credit, quality financial institutions. Balances up to $250,000 are insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2021, cash and equivalents in excess of insured amounts totaled $2,283,258. Management believes that the resulting risk is minimal.

For the year ended June 30, 2021, 31% and 37% of revenues were in the form of fees from the San Andreas Regional Center and the Central California Alliance (Medi-Cal), respectively. At June 30, 2021, 55% and 41% of accounts receivable were due from the San Andreas Regional Center and Medi-Cal, respectively. The reliance on these customers could subject the Organization to the economic stability of these customers.

Investments and Related Income, Gains, and Losses

Investments are initially recorded at cost if purchased or at fair value at the date of donation if contributed. Subsequent to acquisition, investments are reported at fair value based upon market quotations. Investment income and realized and unrealized gains and losses are recognized as net assets without donor restrictions, unless their use by donors is designated with donor restriction to specified purpose or future project. At June 30, 2021, the Organization's investments consisted of mutual funds and certificates of deposit with original maturities of more than 90 days.

Fair Value of Financial Instruments

Investments are recorded at fair value determined in accordance with the provisions of ASC 820, Fair Value Measurements. ASC 820 establishes a fair value hierarchal disclosure framework which prioritizes and ranks the level of market price observable inputs used in measuring investments at fair value.

The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurement involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asserts or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Property and Equipment
The Organization capitalizes all expenditures for property equipment in excess of $5,000 when such property has an expected life of 3 years or more.

Property and equipment are carried at cost or, if donated, at approximate fair value at date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restriction to without donor restriction at that time. Depreciation is computed using the straight- line method over estimated useful lives of 3 to 27.5 years.

Revenue Recognition
The Organization recognizes support and revenue on the accrual basis of accounting. Contract revenue and service fees are recognized as revenue in the period in which the services are provided.

Contributions
Contributions received by the Organization are recorded as net assets with donor restriction or without donor restriction depending on the existence and/or nature of donor restrictions.

Donated Services and Materials
The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks during the year. No amounts have been recognized in the Statement of Activities for generalized volunteer services because the criteria for recognition have not been satisfied. Contributed goods are recorded at fair value at the date of donation. For the year ended June 30, 2021, no contributed services or materials were received.

Expense Allocation
The costs of providing various programs and activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. An individual expense is allocated to the underlying activities through which it was incurred. The Statement of Activities and the Statement of Functional Expenses includes certain expenses which must be allocated on a reasonable basis which has been consistently applied: an allocation of occupancy, office, insurance, professional services, and depreciation expense. These expenses have been allocated based on percentage of revenue received throughout all the programs.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences
All regular full-time employees accrue vacation and sick leave. The rate of accrual is based on seniority. Any unused vacation accrual is paid upon termination.

Upcoming Accounting Pronouncements

ASU 2016-02
In February 2016, the FASB issued ASU No. 2016-02, which amends the FASB Accounting Standards Codification and created Topic 842, *Leases*, requiring organizations to recognize lease assets and lease liabilities on the statement of net position and requiring disclosure of key information about leasing arrangements. The guidance is effective for periods beginning after December 15, 2021. ASU No. 2016-02 mandates a modified retrospective transition method. The Organization is currently evaluating the impact of the pending adoption of this new standard on its financial statements.

Subsequent Events
Subsequent event were evaluated by management through December 28, 2021, which is the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the Organization's financial statements.

NOTE 3. FINANCIAL ASSETS AVAILABILITY, LIQUIDITY AND RESERVES MANAGEMENT

The Organization's board of directors passed a resolution to strive to maintain an operating reserve from unrestricted net assets to build and maintain an adequate level of net assets to support the organization's day-to-day operation in the event of unforeseen shortfalls. The operating reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes.

The minimum amount to be designated as operating reserve is established in an amount sufficient to maintain ongoing operations and programs for a set period of time, measured in days, for a target amount equal to 90 days of budget approved revenue. As of June 30, 2021, the Organization believes there was a reserve of approximately 180 days.

NOTE 3. FINANCIAL ASSETS AVAILABILITY, LIQUIDITY AND RESERVES MANAGEMENT (CONTINUED)

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, compromise the following:

Cash and cash equivalents	$2,535,976
Investments	28,510
Accounts receivable	429,042
Prepaid expenses	29,286
Total financial assets as of June 30, 2021	3,022,814
Total financial assets and other resources available to meet cash needs for general expenditure within one year	$3,022,814

NOTE 4. INVESTMENTS

Investments measured at fair value on a recurring basis have been categorized into the fair value hierarchy as follows at June 30, 2021:

	Level 1	Level 2	Level 3	Total
Mutual funds	$13,227	$ 0	$ 0	$13,227
Certificates of deposit	0	15,283	0	15,283
	$13,227	$15,283	$ 0	$28,510

NOTE 5. CLIENT FUNDS HELD IN TRUST

Client trust funds consist of demand deposit accounts resulting from amounts received for the benefit of consumers, net of expenditures made on the consumer’s behalf. The Organization recognizes such funds as both an asset and a liability. The transactions are not reported in the Statement of Activities. As of June 30, 2021, funds held in trust total $41,337.

NOTE 6. FIXED ASSETS

The following is a summary of fixed assets for the year ended June 30, 2021:

	Balance at June 30, 2020	Additions	Disposals	Balance at June 30, 2021
Land	$ 269,759	$ 0	$ 150,000	$ 146,759
Buildings	3,171,715	0	(251,758)	2,919,957
Leasehold improvements	4,980	0	0	4,980
Furniture and fixtures	701,864	9,155	(32,470)	678,549
Vehicles	319,578	0	0	319,578
Construction in Progress	9,155	68,612	(9,155)	68,612
Total cost basis	4,504,051	77,767	(443,383)	4,138,435

	Balance at June 30, 2020	Additions	Disposals	Balance at June 30, 2021
Buildings	$ (1,638,133)	$ (86,000)	$ 222,903	$ (1,501,230)
Leasehold improvements	(2,171)	(127)	0	(2,298)
Furniture and fixtures	(568,119)	(19,624)	23,315	(564,428)
Vehicles	(242,738)	(32,499)	0	(275,237)
Total accumulated depreciation	(2,451,161)	(138,250)	246,218	(2,343,193)
Net Book Value	$ 2,052,890	$ (60,483)	$ (197,165)	$ 1,795,242

Depreciation expense for the year ended June 30, 2021 totaled $138,250. In February 2021, the Organization sold its Forest Hill location for net sales proceeds of $1,102,965. The net book value at the time of the sale was $179,745 for a gain on sale of $923,220.

A portion of the land and building above are pledged as collateral for the mortgage payable as disclosed in Note 7.

NOTE 7. MORTGAGE PAYABLE AND PAYCHECK PROTECTION PROGRAM LOAN

Mortgage payable consists of a note, net of unamortized loan fees payable to Bank of America. Monthly installments are $6,717 and include interest at 4.00% on the unpaid balance. The note is collateralized by 850 Congress Avenue, Pacific Grove, CA. At June 30, 2021, the principal balance due on the note was $349,379 less unamortized loan fees of $3,937.

In July 2018 the Board of Directors approved a motion to increase the mortgage payment by $1,000 per month to decrease the balloon payment due in December 2025.

Principal and interest payments for the next five years ending June 30, are as follows:

	Principal	Interest	Total
2022	$67,605	$12,997	$80,602
2023	70,616	9,987	80,603
2024	73,493	7,110	80,603
2025	76,487	4,116	80,603
2026	61,178	897	62,075
	$349,379	$35,107	$384,486

Interest paid on the mortgage was $18,640 during the year ended June 31, 2021. The mortgage requires a balloon payment of the remaining principal balance due December 2025.

The Organization applied for and received a loan from the SBA on May 1, 2020, under the Paycheck Protection Program in the amount of $670,200. The loan bears interest at a rate of 1% per annum and was scheduled to mature May 1, 2022. Loan payments are deferred to either the date that SBA remits the borrower's loan forgiveness amount to the lender, or if the borrower does not apply for loan forgiveness, ten months after the end of the borrower's loan forgiveness covered period. This program allows for full forgiveness of the loan and interest if the funds are used for payroll costs, interest on mortgage loans, rent, and utilities. Forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease. The Organization received full forgiveness of the loan and associated interest in June 2021.

One June 1, 2021, the Organization signed a promissory note with the California Health Facilities Financing Authority, under which the Organization will be able to borrow up to a principal amount of $350,000 at a rate of 3% per annum with a maturity date of August 1, 2028. The Organization intends to use the proceeds to pay of the existing Bank of America Loan. As of June 30, 2021, the Organization had not borrowed any funds under the terms of this note.

NOTE 8. OPERATING LEASES

The Organization leases property under an operating lease expiring April 30, 2022. The rental expense under the lease was $33,624 for the year ended June 30, 2021.

Total future scheduled minimum lease payments by fiscal year are as follows:

2022	$28,300

NOTE 9. DEFINED CONTRIBUTION PLAN

The Organization has a defined contribution plan (the Plan) as defined under Section 401(k) of the U.S. Internal Revenue Code covering all full time employees over 21 years of age after 6 months of service. The Organization makes a contribution to the Plan each year to match eligible employees' salary deferrals up to a maximum of 3.0 percent of the individual participants' compensation. The expense for the year ended June 30, 2021 was $57,829.

NOTE 10. SPECIAL EVENTS

The Organization reported net income from special events of $2,756. The total income and expenses related to special events during the year ended June 30, 2021 are as follows:

Income	$66,515
Expense	(63,259)
Net income	$ 3,256