

NARROW GATE FOUNDATION AND SUBSIDIARIES

WILLIAMSPORT, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2019 AND 2018

NARROW GATE FOUNDATION AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Narrow Gate Foundation and Subsidiaries
Williamsport, Tennessee

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Narrow Gate Foundation and Subsidiaries (collectively, the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Narrow Gate Foundation and Subsidiaries as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yung CPA PLLC

Nashville, Tennessee
September 15, 2020

NARROW GATE FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Cash	\$ 460,293	\$ 330,936
Accounts receivable	65,660	30,918
Inventory	28,018	30,371
Property and equipment, net	<u>641,370</u>	<u>538,368</u>
 TOTAL ASSETS	 <u>\$ 1,195,341</u>	 <u>\$ 930,593</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 162,890	\$ 153,161
Deferred lease liability	1,596	-
Deferred revenue	<u>59,393</u>	<u>9,772</u>
 TOTAL LIABILITIES	 <u>223,879</u>	 <u>162,933</u>

NET ASSETS

Net assets without donor restrictions		
Designated for property and equipment	641,370	538,368
Undesignated	<u>330,092</u>	<u>229,292</u>
Total net assets without donor restrictions	<u>971,462</u>	<u>767,660</u>
 TOTAL NET ASSETS	 <u>971,462</u>	 <u>767,660</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,195,341</u>	 <u>\$ 930,593</u>

See accompanying notes to the consolidated financial statements.

NARROW GATE FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019		
	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
SUPPORT AND REVENUE			
PUBLIC SUPPORT			
Contributions	\$ 1,496,109	\$ 269,634	\$ 1,765,743
In-kind contributions	53,600	-	53,600
Special events	180,127	-	180,127
Less: direct expenses	(23,409)	-	(23,409)
Net assets released from restrictions	269,634	(269,634)	-
Total public support	<u>1,976,061</u>	<u>-</u>	<u>1,976,061</u>
OTHER REVENUE			
Enrollment fees	24,180	-	24,180
Application fees	3,205	-	3,205
Narrow Gate Trading Company sales	488,771	-	488,771
Gain (loss) on disposal of property and equipment	(12,918)	-	(12,918)
Other revenue	11,137	-	11,137
Interest income	528	-	528
Total other revenue	<u>514,903</u>	<u>-</u>	<u>514,903</u>
TOTAL SUPPORT AND REVENUE	<u>2,490,964</u>	<u>-</u>	<u>2,490,964</u>
EXPENSES			
Program services	1,855,382	-	1,855,382
Supporting services:			
Management and general	115,265	-	115,265
Fundraising	316,515	-	316,515
TOTAL EXPENSES	<u>2,287,162</u>	<u>-</u>	<u>2,287,162</u>
CHANGE IN NET ASSETS	203,802	-	203,802
NET ASSETS - BEGINNING OF YEAR	<u>767,660</u>	<u>-</u>	<u>767,660</u>
NET ASSETS - END OF YEAR	<u>\$ 971,462</u>	<u>\$ -</u>	<u>\$ 971,462</u>

See accompanying notes to the consolidated financial statements.

2018

<u>WITHOUT</u> <u>DONOR</u> <u>RESTRICTIONS</u>	<u>WITH</u> <u>DONOR</u> <u>RESTRICTIONS</u>	<u>TOTAL</u>
\$ 1,053,598	\$ 204,175	\$ 1,257,773
42,600	-	42,600
157,625	-	157,625
(18,790)	-	(18,790)
<u>205,175</u>	<u>(205,175)</u>	<u>-</u>
<u>1,440,208</u>	<u>(1,000)</u>	<u>1,439,208</u>
30,360	-	30,360
3,274	-	3,274
499,964	-	499,964
2,000	-	2,000
815	-	815
<u>209</u>	<u>-</u>	<u>209</u>
<u>536,622</u>	<u>-</u>	<u>536,622</u>
<u>1,976,830</u>	<u>(1,000)</u>	<u>1,975,830</u>
1,487,485	-	1,487,485
126,360	-	126,360
<u>320,614</u>	<u>-</u>	<u>320,614</u>
<u>1,934,459</u>	<u>-</u>	<u>1,934,459</u>
42,371	(1,000)	41,371
<u>725,289</u>	<u>1,000</u>	<u>726,289</u>
<u>\$ 767,660</u>	<u>\$ -</u>	<u>\$ 767,660</u>

NARROW GATE FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 203,802	\$ 41,371
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Gain) loss on disposal of property and equipment	12,918	(2,000)
Depreciation	77,429	57,614
Decrease (increase) in:		
Accounts receivable	(34,742)	6,127
Inventory	2,353	(3,069)
Increase (decrease) in:		
Accounts payable and accrued expenses	9,729	118,259
Deferred lease liability	1,596	-
Deferred revenue	<u>49,621</u>	<u>9,772</u>
TOTAL ADJUSTMENTS	<u>118,904</u>	<u>186,703</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>322,706</u>	<u>228,074</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(193,349)	(214,871)
Proceeds from disposal of property and equipment	<u>-</u>	<u>2,000</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(193,349)</u>	<u>(212,871)</u>
INCREASE IN CASH	129,357	15,203
CASH - BEGINNING OF YEAR	<u>330,936</u>	<u>315,733</u>
CASH - END OF YEAR	<u>\$ 460,293</u>	<u>\$ 330,936</u>

See accompanying notes to the consolidated financial statements.

NARROW GATE FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	PROGRAM SERVICES							SUPPORTING SERVICES			TOTAL EXPENSES
	FOUNDATION	COMMUNITY	SERVICE	EDUCATION CENTER	EXCHANGE	TRADING COMPANY	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL SUPPORTING SERVICES	
Payroll	\$ 132,271	\$ 132,276	\$ 132,295	\$ 28,724	\$ 102,115	\$ 285,588	\$ 813,269	\$ 16,582	\$ 150,919	\$ 167,501	\$ 980,770
Payroll fees	662	662	662	487	1,356	2,389	6,218	6,352	529	6,881	13,099
Payroll taxes	9,933	9,853	9,854	2,086	6,540	21,648	59,914	862	11,459	12,321	72,235
Employee benefits	14,157	14,157	14,267	5,755	17,979	32,207	98,522	3,149	11,746	14,895	113,417
TOTAL PAYROLL AND RELATED EXPENSES	157,023	156,948	157,078	37,052	127,990	341,832	977,923	26,945	174,653	201,598	1,179,521
Accounting fees	5,282	5,282	5,282	510	3,582	3,760	23,698	41,971	4,782	46,753	70,451
Bank and merchant fees	-	-	-	-	-	-	-	12,161	-	12,161	12,161
Computer services	126	126	126	126	126	126	756	476	126	602	1,358
Contract labor	-	-	-	-	154	400	554	-	27,867	27,867	28,421
Costs of goods sold	-	-	-	-	-	215,429	215,429	-	-	-	215,429
Depreciation	22,923	22,923	22,923	-	-	8,660	77,429	-	-	-	77,429
Food	26,121	27,116	24,623	25	6,926	1,326	86,137	-	10,146	10,146	96,283
Gas	6,127	6,106	6,063	171	4,140	3,677	26,284	2,847	4,919	7,766	34,050
Insurance	6,934	6,934	7,052	161	4,233	9,159	34,473	-	3,664	3,664	38,137
Legal fees	-	-	-	-	8,270	650	8,920	380	-	380	9,300
Marketing	3,109	3,149	3,168	1,801	4,188	33,741	49,156	1,493	62,157	63,650	112,806
Occupancy	14,066	14,066	14,068	45	1,036	71,532	114,813	3,825	4,183	8,008	122,821
Office expenses	2,420	2,390	2,627	132	1,413	16,554	25,536	1,623	2,035	3,658	29,194
Other expenses	10,779	8,540	13,675	404	3,752	23,376	60,526	22,263	4,629	26,892	87,418
Property supplies and maintenance	29,674	29,736	28,838	302	10,527	12,665	111,742	413	1,651	2,064	113,806
Repairs and maintenance	-	-	-	-	-	1,788	1,788	-	-	-	1,788
Special events expenses	-	-	-	-	-	-	-	-	23,409	23,409	23,409
Telephone	2,708	2,422	2,442	402	2,539	194	10,707	386	2,162	2,548	13,255
Travel and meetings	257	245	909	-	3,592	6,462	11,465	-	12,744	12,744	24,209
Vehicle expenses	5,802	5,792	5,806	5	128	513	18,046	482	797	1,279	19,325
TOTAL EXPENSES	293,351	291,775	294,680	41,136	182,596	751,844	1,855,382	115,265	339,924	455,189	2,310,571
Less: expenses netted with revenue on consolidated statement of activities	-	-	-	-	-	-	-	-	(23,409)	(23,409)	(23,409)
Special event expenses	-	-	-	-	-	-	-	-	(23,409)	(23,409)	(23,409)
TOTAL EXPENSES BY FUNCTION	\$ 293,351	\$ 291,775	\$ 294,680	\$ 41,136	\$ 182,596	\$ 751,844	\$ 1,855,382	\$ 115,265	\$ 316,515	\$ 431,780	\$ 2,287,162

See accompanying notes to the consolidated financial statements.

NARROW GATE FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2018

	PROGRAM SERVICES					SUPPORTING SERVICES				
	FOUNDATION	COMMUNITY	SERVICE	EXCHANGE	TRADING COMPANY	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL SUPPORTING SERVICES	TOTAL EXPENSES
Payroll	\$ 118,573	\$ 118,578	\$ 118,585	\$ 53,198	\$ 230,358	\$ 639,292	\$ 32,716	\$ 158,505	\$ 191,221	\$ 830,513
Payroll fees	194	194	194	167	1,724	2,473	1,574	194	1,768	4,241
Payroll taxes	8,603	8,604	8,603	3,477	17,106	46,393	1,510	11,468	12,978	59,371
Employee benefits	11,754	11,754	12,221	752	13,576	50,057	12,069	11,639	23,708	73,765
TOTAL PAYROLL AND RELATED EXPENSES	139,124	139,130	139,603	57,594	262,764	738,215	47,869	181,806	229,675	967,890
Accounting fees	-	-	-	-	3,000	3,000	25,208	-	25,208	28,208
Bank and merchant fees	-	-	-	-	-	-	11,437	-	11,437	11,437
Computer services	443	443	443	-	-	1,329	-	681	681	2,010
Contract labor	167	167	167	2,800	-	3,301	-	2,730	2,730	6,031
Contract services	-	-	-	-	18,800	18,800	-	-	-	18,800
Costs of goods sold	-	-	-	-	135,377	135,377	-	-	-	135,377
Depreciation	17,791	17,791	17,791	-	4,241	57,614	-	-	-	57,614
Food	37,472	38,957	40,454	79	-	116,962	-	4,682	4,682	121,644
Gas	6,867	6,817	6,634	40	907	21,265	4,340	5,522	9,862	31,127
Insurance	7,651	7,651	7,651	463	7,415	30,831	3,630	4,490	8,120	38,951
Legal fees	-	-	-	-	2,430	2,430	-	-	-	2,430
Marketing	5,351	5,298	5,340	19,094	17,245	52,328	2,427	78,493	80,920	133,248
Occupancy	18,719	18,722	18,719	-	39,695	95,855	3,829	3,833	7,662	103,517
Office expenses	2,225	2,316	2,433	326	36,675	43,975	624	1,808	2,432	46,407
Other expenses	8,299	9,653	11,047	98	14,287	43,384	23,683	3,652	27,335	70,719
Property supplies and maintenance	29,616	26,866	29,698	809	3,372	90,361	1,880	438	2,318	92,679
Repairs and maintenance	-	-	-	-	275	275	-	-	-	275
Special events expenses	-	-	-	-	-	-	-	18,790	18,790	18,790
Telephone	2,105	2,105	2,105	944	-	7,259	494	2,119	2,613	9,872
Travel and meetings	166	166	2,234	404	3,774	6,744	-	28,707	28,707	35,451
Vehicle expenses	6,066	5,916	6,092	31	75	18,180	939	1,653	2,592	20,772
TOTAL EXPENSES	282,062	281,998	290,411	82,682	550,332	1,487,485	126,360	339,404	465,764	1,953,249
Less: expenses netted with revenue on consolidated statement of activities										
Special event expenses	-	-	-	-	-	-	-	(18,790)	(18,790)	(18,790)
TOTAL EXPENSES BY FUNCTION	\$ 282,062	\$ 281,998	\$ 290,411	\$ 82,682	\$ 550,332	\$ 1,487,485	\$ 126,360	\$ 320,614	\$ 446,974	\$ 1,934,459

See accompanying notes to the consolidated financial statements.

NARROW GATE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 1 - ORGANIZATION AND GENERAL

Narrow Gate Foundation (the “Foundation”) is a nonprofit organization chartered in the State of Tennessee in 2004 to provide a Christian discipleship experience for young men ages 18-25 desiring to take a pause from the distractions of life to discover who they are and what their purpose here on earth is all about. This includes living in a wilderness environment, participating in daily chores and community work projects to build teamwork and developing good work disciplines, going on challenging adventures, and most importantly, studying the Bible and other Christian curriculum to help shape them into godly young men. The Foundation is supported primarily through individual and business contributions.

Narrow Gate Trading Company (“Trading Co”), is a wholly owned subsidiary of the Foundation whose purpose is to demonstrate discipleship in the workplace, provide employment opportunities for our graduates and create a sustainable model for revenue generation.

Narrow Gate Exchange (“Exchange”), is a wholly owned subsidiary of the Foundation whose purpose is to provide an environment where international men can be trained in sawmill operation, woodworking craftsmanship, best business practices and Christian ethics so that they can return to their home countries and establish fully sustainable businesses that will build local economies, interact with global markets and make disciples of Christ in the process.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation, Trading Co. and Exchange, (collectively, the “Organization”). All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

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. These net assets may be used at the discretion of the Organization’s management and the board of directors.

NARROW GATE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Net assets donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the 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. The Organization has no net assets with donor restrictions that are perpetual in nature.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Consolidated Statements of Activities.

Revenue Recognition

Contributions - Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is made.

A contribution is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until the barrier(s) in the agreement are overcome.

Unconditional contributions of cash and other assets, including contributions receivable (unconditional promises to give), are recorded as revenue based upon any donor-imposed restrictions on the date of the donor's commitment or gift. Noncash contributions are recorded at the estimated fair value at the date of the gift. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on these amounts is computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. There were no unconditional promises to give in 2019 or 2018.

The allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends.

NARROW GATE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

The Organization is required to make significant estimates and exercise judgment in determining the net contributions receivable. Annually, the Organization evaluates its assumptions, judgments and estimates that can have a significant impact on its reported contributions receivable based on the most recent information available, and when necessary, adjusts the balance accordingly. It is at least reasonably possible, that this estimate will change within one year of the date of the consolidated financial statements due to one or more confirming events and the effect of that change could be material.

Sale of Inventory - revenues are recognized when control of products is transferred to customers, in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those products and services, less an estimate of variable consideration for return rights and discounts. The Organization does not have any significant financing components as payment is received at or shortly after the point of sale. Costs incurred to obtain a contract are expensed as incurred when the amortization period is less than a year. The nature of the Organization's business does not give rise to variable consideration.

For performance obligations related to the sale of general merchandise and educational materials such as box beams, artwork, publications, and other merchandise promoting the Organization, which is the sole source of contract revenue, control transfers to the customer at a point in time. The Organization's principal terms of sale are Freight On Board (FOB) Shipping Point and the Organization transfers control and records revenue for product sales upon shipment to the customer.

Cash

Cash consists principally of checking account balances.

Inventory

Inventories consist of raw materials and finished goods and are reported at the lower of cost or net realizable value, with cost determined by the first-in, first-out ("FIFO") method, with the exception of all wood included in raw materials, where cost is determined by the moving average cost method.

NARROW GATE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are reported at cost at the date of purchase or at estimated fair value at the date of gift to the Organization. The Organization's policy is to capitalize expenditures with a cost of \$5,000 or more and an estimated useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets (leasehold improvements - 15 years; furniture and fixtures, equipment, and vehicles - 5 to 7 years). Expenditures for repairs and maintenance are charged to operations when incurred.

Deferred Revenue

Deferred revenue represent payments received in advance of providing services under certain contracts.

Sales Taxes Collected

Sales tax collected and remitted to governmental authorities are excluded from sales and costs and presented on a net basis in the consolidated financial statements.

Advertising

Advertising costs are expensed as incurred. Advertising expenses are classified as marketing and amounted to \$112,806 and \$133,248 for the years ended December 31, 2019 and 2018, respectively.

Income Taxes

The Foundation qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and files a U.S. Federal Form 990. Accordingly, income taxes are not provided.

Trading Co is a disregarded entity for tax purposes and any activities of the subsidiary is included in the Form 990 filed by the Foundation.

Exchange is a disregarded entity for tax purposes and any activities of the subsidiary is included in the Form 990 filed by the Foundation.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Organization's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying consolidated financial statements.

NARROW GATE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Goods and Services

Donated goods are recorded as support and either an asset or expense in the period received at fair value, if there is an objective and measurable basis for determining such value.

Donated services are recognized if they create or enhance non-financial assets or the donated service requires specialized skills, was performed by the donor who possesses such skills, and would have been purchased by the Organization if not provided by the donor. Such services are recognized at fair value as support and expense in the period the services are performed. Donated goods and services recognized amounted to \$53,600 and \$42,600 in 2019 and 2018, respectively.

Program and Supporting Services

The following program and supporting services are included in the accompanying consolidated financial statements:

Program Services - includes the following programs:

Foundation, Community and Service - provide a Christian discipleship experience for young men ages 18-25 desiring to take a pause from the distractions of life to discover who they are and what their purpose here on earth is all about.

Trading Company - gives an opportunity for graduates of the Foundation's program to refine craftsmanship skills through woodworking and similar crafts programs.

Exchange - enables qualified disciples from various countries to come to the US and receive intensive training at the Marc Adams School of Woodworking in milling lumber and making wood products that are marketable in their countries or via export.

Artisan Education Center - provides a world-class educational experience that involves woodworking as a metaphor for the transformation that happens during our relationship with God.

Supporting Services:

Management and General - relates to the overall direction of the Organization. These expenses are not identifiable with a particular program or with fundraising but are indispensable to the conduct of those activities and are essential to the organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, and other administrative activities.

Fundraising - includes costs of activities related to obtaining resources. These costs include staff time, materials and other related expenses. Activities related to obtaining financial support include the annual fundraising campaign and certain events.

NARROW GATE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the Consolidated Statement of Activities. The Consolidated Statement of Functional Expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses require allocation on a reasonable basis that are consistently applied. All allocated expenses are allocated on the basis of estimates of time and effort.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Authoritative Accounting Guidance

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11 *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date.

A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Organization expects to adopt the guidance retrospectively at the beginning of the period of adoption, January 1, 2021, through a cumulative-effect adjustment, and will not apply the new standard to comparative periods presented.

The new standard provides a number of practical expedients. Upon adoption, the Organization expects to elect all the practical expedients available. The Organization is does not expect the adoption of the new standard to have a material impact on the financial statements.

NARROW GATE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation. Such reclassifications had no effect on the change in net assets or net assets as previously reported.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2019 and September 15, 2020, the date the financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in GAAP. The ASU requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Organization adopted the new standard effective January 1, 2019, the first day of the Organization's fiscal year, using the modified retrospective approach.

As part of the adoption of the ASU, the Organization did not elect to use any practical expedients as there were no open contracts from prior periods requiring adjustment.

The adoption of this ASU did not have a significant impact on the Organization's financial statements. The majority of the Organization's revenue arrangements generally consist of a single performance obligation to transfer promised goods. Based on the Organization's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported amounts as a result of the adoption.

On January 1, 2019 the Organization adopted Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)* as amended, as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions and improved guidance to better distinguish between conditional and unconditional contributions. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

NARROW GATE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 4 - LIQUIDITY AND AVAILABILITY

Financials assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Consolidated Statement of Financial Position date, as of December 31, 2019 are as follows:

	<u>2019</u>	<u>2018</u>
Cash	\$ 460,293	\$ 330,936
Accounts receivable	<u>65,660</u>	<u>30,918</u>
	<u>\$ 525,953</u>	<u>\$ 361,854</u>

NOTE 5 - INVENTORY

Inventory relates to items used by Trading Co and consists of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Raw materials	\$ 23,497	\$ 25,198
Finished goods	<u>4,521</u>	<u>5,173</u>
	<u>\$ 28,018</u>	<u>\$ 30,371</u>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 711,793	\$ 652,430
Furniture and fixtures	66,916	66,916
Equipment	160,705	160,705
Vehicles	138,836	138,836
Construction in progress	<u>113,224</u>	<u>-</u>
	1,191,474	1,018,887
Less: accumulated depreciation	<u>(550,104)</u>	<u>(480,519)</u>
	<u>\$ 641,370</u>	<u>\$ 538,368</u>

Construction in progress represents costs incurred on the construction of an education center on the property. There are no significant construction commitments at December 31, 2019.

NARROW GATE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 7 - CONTRACT BALANCES

Accounts receivable and deferred revenue from contracts with customers consisted of the following as of December 31, 2019 and 2018:

	Accounts receivable		Deferred revenue	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Beginning of year	\$ 30,918	\$ 37,045	\$ 9,772	\$ -
End of year	<u>\$ 65,660</u>	<u>\$ 30,918</u>	<u>\$ 59,393</u>	<u>\$ 9,772</u>

NOTE 8 - CONCENTRATIONS OF CREDIT RISK

The Organization maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to statutory limits. The Organization’s cash balances may, at times, exceed statutory limits. The Organization has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on cash balances.

The Organization received contributions from two donors that approximated 34% and 23% of total contributions for year ended December 31, 2019 and 2018.

NOTE 9 - OPERATING LEASES

The Organization is obligated under an operating lease agreement for residential property, which is owned by a member of the board of directors. The lessor will decide at each fiscal year end whether or not to forgive the annual rent owed by the Organization for its use and occupancy of the property. For fiscal year end December 31, 2019 and 2018, rent expense totaled \$30,600 per year. The lessor has forgiven the rent for the current and prior fiscal year end, which is recognized and recorded as an in-kind contribution in the accompanying Consolidated Statement of Activities. The lease expires September 30, 2022.

NARROW GATE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 9 - OPERATING LEASES (CONTINUED)

The Organization entered into a 60-month lease for the Trading Co. location, which began in May 2019. The lease provides for annual scheduled rent increases and includes one additional 5-year renewal option. Minimum lease payments range from \$8,645 to \$9,551 per year. The Organization is also responsible for basic operating expenses, to be adjusted annually. Rent expense is recognized on the straight-line basis over the term of the lease. Any excess of rent expense recognized over the amount paid is included in deferred lease liability.

Future lease obligations, assuming the Organization is not forgiven any rent requirement, at December 31, 2019 follows:

Year ending December 31,

2020	\$	138,071
2021		140,166
2022		134,259
2023		111,408
2024		75,454
	\$	<u>599,358</u>

Total rent expense was approximately \$92,000 and \$62,500 for the years ended December 31, 2019 and 2018, respectively.

NOTE 10 - IN-KIND DONATIONS

The Organization received in-kind donations for the year ended December 31, 2019 and 2018 as follows:

	<u>2019</u>	<u>2018</u>
Facilities rental	\$ 30,600	\$ 30,600
Professional accounting services	12,000	12,000
Wood donation for construction in progress	<u>11,000</u>	<u>-</u>
	<u>\$ 53,600</u>	<u>\$ 42,600</u>

NARROW GATE FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 11 - RETIREMENT PLAN

The Organization has a defined contribution retirement plan. Employees are eligible to participate in the Plan at the beginning of employment. Beginning in 2019, the Organization makes a matching contribution of 100% percent of employee contributions up to 3 percent of compensation. The Organization's retirement plan contribution expense was approximately \$11,000 for the year ended December 31, 2019.

NOTE 12 - SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus included restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries including the geographical area in which the Organization operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Organization, management is continuing to evaluate the evolving situation and will implement appropriate countermeasures as needed.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The CARES Act provides an economic relief package to many businesses in the US as a direct response to the adverse impacts of COVID-19. Section 1102 of the CARES Act establishes the Paycheck Protection Program (PPP), which is implemented by the Small Business Administration, and is intended to provide small businesses and certain nonprofit organizations (generally those with 500 or less employees) with funds to pay up to twenty-four weeks of payroll costs and benefits, interest on mortgages, rent and utilities. The funds are available in the form of a loan which is fully forgivable under certain conditions. Forgiveness of the loans will be reduced if employment and/or payroll costs decrease in the period following receipt of funds. Funds that do not meet the forgiveness provisions will be repaid at a rate of 1.0% interest over a 24 month period. The Organization obtained approval for a PPP loan of approximately \$227,000 in May 2020. As of the date these financial statements were available to be issued, the amount of loan forgiveness has not been determined.