

NARROW GATE FOUNDATION AND SUBSIDIARY

WILLIAMSPORT, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2016 AND 2015

NARROW GATE FOUNDATION AND SUBSIDIARY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Narrow Gate Foundation and Subsidiary  
Williamsport, Tennessee

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Narrow Gate Foundation and Subsidiary which comprise the statement of financial position as of December 31, 2016 and 2015, and the related 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 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 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 Subsidiary as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Kraft CPAs PLLC*

Nashville, Tennessee  
June 29, 2017

NARROW GATE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Cash	\$ 283,176	\$ 210,688
Accounts receivable	4,388	-
Contributions receivable	-	20,000
Inventory	29,504	25,708
Property and equipment, net	<u>335,119</u>	<u>348,236</u>
 TOTAL ASSETS	 <u>\$ 652,187</u>	 <u>\$ 604,632</u>

LIABILITIES AND NET ASSETS

<b>LIABILITIES</b>		
Accounts payable and accrued expenses	<u>\$ 13,105</u>	<u>\$ 21,575</u>
 TOTAL LIABILITIES	 <u>13,105</u>	 <u>21,575</u>
 <b>NET ASSETS</b>		
Unrestricted:		
Designated for property and equipment	335,119	348,236
Undesignated	<u>303,963</u>	<u>234,821</u>
 TOTAL NET ASSETS	 <u>639,082</u>	 <u>583,057</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 652,187</u>	 <u>\$ 604,632</u>

See accompanying notes to the consolidated financial statements.

NARROW GATE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
SUPPORT AND REVENUE		
PUBLIC SUPPORT		
Contributions	\$ 867,555	\$ 923,403
In-kind contributions	44,817	106,503
Special events	202,457	155,265
Less: direct expenses	<u>(31,183)</u>	<u>(20,304)</u>
Total public support	1,083,646	1,164,867
OTHER REVENUE		
Tuition revenue	23,865	86,545
Enrollment fees	26,000	26,000
Application fees	<u>1,825</u>	<u>1,850</u>
Net tuition and related revenue	51,690	114,395
Artisan sales	304,570	162,214
Servant table	-	483
Refer and share	1,350	2,000
Other revenue	23,748	9,000
Interest income	<u>46</u>	<u>28</u>
TOTAL SUPPORT AND REVENUE	<u>1,465,050</u>	<u>1,452,987</u>
EXPENSES		
Program services	1,100,773	1,018,657
Supporting services:		
Management and general	123,891	108,528
Fundraising	<u>184,361</u>	<u>159,343</u>
TOTAL EXPENSES	<u>1,409,025</u>	<u>1,286,528</u>
CHANGE IN NET ASSETS	56,025	166,459
UNRESTRICTED NET ASSETS - BEGINNING OF YEAR	<u>583,057</u>	<u>416,598</u>
UNRESTRICTED NET ASSETS - END OF YEAR	<u>\$ 639,082</u>	<u>\$ 583,057</u>

See accompanying notes to the consolidated financial statements.

NARROW GATE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 56,025	\$ 166,460
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	51,758	46,578
Decrease (increase) in:		
Accounts receivable	(4,388)	114
Contributions receivable	20,000	(20,000)
Inventory	(3,796)	(25,708)
Donated lumber	19,640	(56,112)
Increase (decrease) in:		
Accounts payable and accrued expenses	(8,470)	11,919
<b>TOTAL ADJUSTMENTS</b>	<u>74,744</u>	<u>(43,209)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>130,769</u>	<u>123,251</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(58,281)	(96,148)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(58,281)</u>	<u>(96,148)</u>
<b>INCREASE IN CASH</b>	72,488	27,103
<b>CASH - BEGINNING OF YEAR</b>	<u>210,688</u>	<u>183,585</u>
<b>CASH - END OF YEAR</b>	<u>\$ 283,176</u>	<u>\$ 210,688</u>

See accompanying notes to the consolidated financial statements.

NARROW GATE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2016

	PROGRAM SERVICES					SUPPORTING SERVICES			
	FOUNDATION	COMMUNITY	SERVICE	ARTISANS	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL SUPPORTING SERVICES	TOTAL EXPENSES
Payroll	\$ 97,212	\$ 97,207	\$ 97,220	\$ 132,589	\$ 424,228	\$ 56,445	\$ 93,997	\$ 150,442	\$ 574,670
Payroll taxes	6,731	6,730	6,731	12,072	32,264	1,170	6,636	7,806	40,070
Payroll fees	198	198	198	1,790	2,384	1,326	198	1,524	3,908
Health insurance	11,102	11,102	11,220	-	33,424	1,690	10,446	12,136	45,560
<b>TOTAL PAYROLL AND RELATED EXPENSES</b>	<b>115,243</b>	<b>115,237</b>	<b>115,369</b>	<b>146,451</b>	<b>492,300</b>	<b>60,631</b>	<b>111,277</b>	<b>171,908</b>	<b>664,208</b>
Gas	6,238	6,238	6,248	-	18,724	2,291	4,232	6,523	25,247
Costs of goods sold	-	-	-	89,173	89,173	-	-	-	89,173
Property supplies & maintenance	18,545	18,364	19,449	1,899	58,257	-	81	81	58,338
Depreciation	15,500	15,500	15,499	5,259	51,758	-	-	-	51,758
Occupancy	16,726	16,713	16,713	42,602	92,754	3,825	3,834	7,659	100,413
Vehicle expenses	5,248	5,683	6,293	-	17,224	453	4,704	5,157	22,381
Computer services	42	42	42	-	126	-	365	365	491
Food	34,019	37,042	37,845	-	108,906	-	5,191	5,191	114,097
Accounting fees	-	-	-	3,175	3,175	24,085	-	24,085	27,260
Contract labor	2,712	8,713	8,713	-	20,138	960	960	1,920	22,058
Insurance	7,189	7,189	7,189	9,903	31,470	4,204	4,204	8,408	39,878
Office expenses	2,302	2,027	2,011	9,354	15,694	1,722	2,114	3,836	19,530
Telephone	2,698	6,069	4,383	-	13,150	2,073	3,803	5,876	19,026
Travel and meetings	2,752	2,752	139	2,378	8,021	2,445	9,321	11,766	19,787
Bank and merchant fees	-	-	-	-	-	13,395	-	13,395	13,395
Repairs and maintenance	-	-	-	3,340	3,340	-	-	-	3,340
Marketing	2,031	2,188	2,174	15,322	21,715	1,374	30,898	32,272	53,987
Servant table	-	-	-	-	-	-	85	85	85
Other expenses	15,169	13,000	16,032	10,647	54,848	6,433	3,292	9,725	64,573
Special events	-	-	-	-	-	-	31,183	31,183	31,183
<b>TOTAL EXPENSES</b>	<b>246,414</b>	<b>256,757</b>	<b>258,099</b>	<b>339,503</b>	<b>1,100,773</b>	<b>123,891</b>	<b>215,544</b>	<b>339,435</b>	<b>1,440,208</b>
Less: expenses netted with revenue on statement of activities									
Special event expenses	-	-	-	-	-	-	(31,183)	(31,183)	(31,183)
<b>TOTAL EXPENSES BY FUNCTION</b>	<b>\$ 246,414</b>	<b>\$ 256,757</b>	<b>\$ 258,099</b>	<b>\$ 339,503</b>	<b>\$ 1,100,773</b>	<b>\$ 123,891</b>	<b>\$ 184,361</b>	<b>\$ 308,252</b>	<b>\$ 1,409,025</b>

See accompanying notes to the consolidated financial statements.



NARROW GATE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2015

	PROGRAM SERVICES					SUPPORTING SERVICES				
	FOUNDATION	COMMUNITY	SERVICE	ARTISANS	SERVANT TABLE	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL SUPPORTING SERVICES	TOTAL EXPENSES
Payroll	\$ 97,166	\$ 93,830	\$ 98,455	\$ 125,028	\$ 4,614	\$ 419,093	\$ 50,996	\$ 89,162	\$ 140,158	\$ 559,251
Payroll taxes	6,711	6,466	6,772	11,616	306	31,871	784	6,404	7,188	39,059
Payroll fees	170	170	169	1,700	82	2,291	1,130	126	1,256	3,547
Health insurance	9,448	9,437	9,518	-	58	28,461	-	5,529	5,529	33,990
<b>TOTAL PAYROLL AND RELATED EXPENSES</b>	<b>113,495</b>	<b>109,903</b>	<b>114,914</b>	<b>138,344</b>	<b>5,060</b>	<b>481,716</b>	<b>52,910</b>	<b>101,221</b>	<b>154,131</b>	<b>635,847</b>
Gas	7,484	7,161	7,161	-	-	21,806	3,415	3,625	7,040	28,846
Costs of goods sold	-	-	-	44,459	-	44,459	-	-	-	44,459
Property supplies & maintenance	16,138	16,121	14,271	2,631	667	49,828	3,135	312	3,447	53,275
Depreciation	13,773	13,773	13,773	5,259	-	46,578	-	-	-	46,578
Occupancy	17,476	17,570	16,656	40,169	857	92,728	3,825	3,830	7,655	100,383
Vehicle expenses	6,102	5,378	6,076	-	667	18,223	-	1,105	1,105	19,328
Computer services	238	238	238	-	-	714	2,501	804	3,305	4,019
Food	34,588	37,970	35,681	-	-	108,239	45	4,905	4,950	113,189
Accounting fees	-	-	-	3,148	-	3,148	25,513	-	25,513	28,661
Contract labor	333	533	333	-	-	1,199	-	1,650	1,650	2,849
Insurance	5,355	5,355	5,355	7,975	-	24,040	68	1,916	1,984	26,024
Office expenses	1,662	1,612	1,471	7,780	573	13,098	1,273	2,213	3,486	16,584
Telephone	1,941	5,375	3,658	-	-	10,974	1,153	3,017	4,170	15,144
Travel and meetings	2,221	2,502	2,502	811	-	8,036	553	11,680	12,233	20,269
Bank and merchant fees	-	-	-	-	-	-	10,696	-	10,696	10,696
Repairs and maintenance	-	-	-	1,183	-	1,183	-	-	-	1,183
Marketing	12,503	12,461	12,461	11,528	-	48,953	1,333	17,940	19,273	68,226
Servant table	-	-	426	-	240	666	-	650	650	1,316
Other expenses	6,367	12,977	16,203	7,083	439	43,069	2,108	4,475	6,583	49,652
Special events	-	-	-	-	-	-	-	20,304	20,304	20,304
<b>TOTAL EXPENSES</b>	<b>239,676</b>	<b>248,929</b>	<b>251,179</b>	<b>270,370</b>	<b>8,503</b>	<b>1,018,657</b>	<b>108,528</b>	<b>179,647</b>	<b>288,175</b>	<b>1,306,832</b>
Less: expenses netted with revenue on statement of activities										
Special event expenses	-	-	-	-	-	-	-	(20,304)	(20,304)	(20,304)
<b>TOTAL EXPENSES BY FUNCTION</b>	<b>\$ 239,676</b>	<b>\$ 248,929</b>	<b>\$ 251,179</b>	<b>\$ 270,370</b>	<b>\$ 8,503</b>	<b>\$ 1,018,657</b>	<b>\$ 108,528</b>	<b>\$ 159,343</b>	<b>\$ 267,871</b>	<b>\$ 1,286,528</b>

See accompanying notes to the consolidated financial statements.

NARROW GATE FOUNDATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Artisans (“Artisans”), 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.

Principles of Consolidation

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

Basis of Presentation

The accompanying consolidated financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

Resources are classified as unrestricted, temporarily restricted or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors’ stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income, or specific portions thereof, be used for operations.

NARROW GATE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

The Organization had no temporarily or permanently restricted net assets as of December 31, 2016 or 2015.

Contributions and Support

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the consolidated statement of activities as net assets released from restrictions.

The Organization reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. 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 those 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. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible contributions is determined by management based on historical loss experience and current economic conditions. Delinquent contributions receivable are charged off against the allowance when management deems further collection efforts will not produce additional recoveries. Subsequent recoveries of previously charged off accounts are credited to the allowance in the period received.

The Organization did not have any contributions receivable as of December 31, 2016, or 2015; accordingly, no allowance for uncollectible contributions has been recorded.

NARROW GATE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tuition Revenue

Tuition and program fees are recorded as revenues during the year the related payments are received. Tuition and program fees may be reduced by sponsorships, foundation grants, individual contributions and business contributions.

The Organization does not accept or deny any student based on their ability to financially support the ministry. However, students and their families are expected to do all they can to off-set the cost of their stay while at the Organization's facilities. The Organization receives conditional promises from students and their families to make tuition payments on behalf of the student in monthly installments or a lump sum. Nevertheless, the collectability of these payments is not reasonably assured and, therefore, tuition revenue is recognized when it is received.

In 2016, the Organization decided to discontinue charging tuition fees beginning with the May 2016 class. Tuition payments received prior to this change were recorded as revenue when received.

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.

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.

Donated Services

The Organization's policy is to record support and expenses for contributed services that require specialized skills and would be purchased if not provided by the donor, at the estimated fair value of the services received.

NARROW GATE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

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

Program Services - include programs 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.

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.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Expenses that relate to more than one function are allocated among applicable functions on the basis of objective evaluation of financial and nonfinancial data or reasonable subjective methods determined by management.

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.

Artisan 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 SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2016 and June 29, 2017, the date the financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

NOTE 2 - 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 three donors that approximated 35% and 47% of total contributions for year ended December 31, 2016 and 2015. Contributions receivable from these donors amounted to \$20,000 at December 31, 2015 (none in 2016).

NOTE 3 - INVENTORY

Inventory consists of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Raw materials	\$ 27,295	\$ 22,006
Finished goods	<u>2,209</u>	<u>3,702</u>
	<u>\$ 29,504</u>	<u>\$ 25,708</u>

NARROW GATE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 446,653	\$ 388,372
Furniture and fixtures	61,825	61,825
Equipment	121,683	121,683
Donated lumber	-	19,640
Vehicles	<u>122,450</u>	<u>122,450</u>
	752,611	713,970
Less: accumulated depreciation	<u>(417,492)</u>	<u>(365,734)</u>
	<u>\$ 335,119</u>	<u>\$ 348,236</u>

NOTE 5 - 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, 2016 and 2015, rent expense totaled \$30,600 respectively. The lessor has forgiven the rent for the current 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, 2017.

Future lease obligations, assuming the Organization is not forgiven its annual rent requirement, at December 31, 2016 follows:

Year ending December 31,

2017	<u>\$ 22,950</u>
	<u>\$ 22,950</u>

The Organization operates under a one-year lease at \$2,600 per month for the Artisan property which ran through July 2014, with an option to renew. The lease has continued on a month-to-month basis as the lessor and the Organization work to finalize an extension.

Total rent expense was approximately \$61,800 for the year ended December 31, 2016 and 2015.

NARROW GATE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 6 - IN-KIND DONATIONS

The Organization received in-kind donations for the year ended December 31, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Facilities rental	\$ 30,600	\$ 30,600
Professional accounting services	12,000	12,000
Lumber	-	56,113
Inventory	<u>2,217</u>	<u>7,790</u>
	<u>\$ 44,817</u>	<u>\$ 106,503</u>