

NARROW GATE FOUNDATION AND SUBSIDIARY

WILLIAMSPORT, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2013

NARROW GATE FOUNDATION AND SUBSIDIARY, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2013

ASSETS

Cash	\$	231,611
Tuition and other receivables		62,111
Property and equipment, net		<u>270,644</u>
 TOTAL ASSETS	 \$	 <u>564,366</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$	5,333
Deferred revenue		<u>48,125</u>

TOTAL LIABILITIES		<u>53,458</u>
-------------------	--	---------------

NET ASSETS

Unrestricted:

Designated for property and equipment		270,644
Undesignated		<u>240,264</u>

TOTAL NET ASSETS		<u>510,908</u>
------------------	--	----------------

TOTAL LIABILITIES AND NET ASSETS	\$	<u>564,366</u>
----------------------------------	----	----------------

See accompanying notes to the consolidated financial statements.

NARROW GATE FOUNDATION AND SUBSIDIARY, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Unrestricted</u>
SUPPORT AND REVENUE	
PUBLIC SUPPORT	
Contributions	\$ 722,630
In-kind contributions	117,304
Special events	47,675
Less: direct expenses	<u>(4,244)</u>
Total public support	883,365
OTHER REVENUE	
Tuition Revenue	51,900
Less: tuition remission and scholarships	(46,033)
Enrollment fees	17,000
Application fees	<u>1,500</u>
Net tuition and related revenue	24,367
Artisan sales	18,517
Servant table	12,664
Other revenue	200
Interest income	302
Loss on disposal of property and equipment	<u>(2,833)</u>
TOTAL SUPPORT AND REVENUE	<u>936,582</u>
EXPENSES	
Program services	863,526
Supporting services:	
Management and general	61,335
Fundraising	<u>61,466</u>
TOTAL EXPENSES	<u>986,327</u>
CHANGE IN NET ASSETS	(49,745)
NET ASSETS - BEGINNING OF YEAR	<u>560,653</u>
NET ASSETS - END OF YEAR	<u>\$ 510,908</u>

See accompanying notes to the consolidated financial statements.

NARROW GATE FOUNDATION AND SUBSIDIARY, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (49,745)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	54,488
Noncash donations of property and equipment	(74,729)
Contributions restricted for purchase of equipment	(20,000)
Loss on disposal of equipment	2,833
Decrease in:	
Tuition and other receivables	60,944
Increase (decrease) in:	
Accounts payable and accrued expenses	(2,719)
Deferred revenue	1,250
TOTAL ADJUSTMENTS	<u>22,067</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(27,678)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of contributions restricted for purchase of equipment	20,000
Purchases of property and equipment	<u>(39,972)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(19,972)</u>
DECREASE IN CASH	(47,650)
CASH - BEGINNING OF YEAR	<u>279,261</u>
CASH - END OF YEAR	<u>\$ 231,611</u>

See accompanying notes to the consolidated financial statements.

NARROW GATE FOUNDATION AND SUBSIDIARY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	PROGRAM SERVICES					TOTAL PROGRAM SERVICES	SUPPORTING SERVICES			TOTAL EXPENSES
	FOUNDATION	COMMUNITY	SERVICE	ARTISAN	SERVANT TABLE		MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL SUPPORTING SERVICES	
Payroll	\$ 77,102	\$ 77,105	\$ 77,121	\$ 70,536	\$ -	\$ 301,864	\$ 19,300	\$ 3,676	\$ 22,976	\$ 324,840
Payroll taxes	5,314	5,314	5,316	5,173	-	21,117	951	276	1,227	22,344
Payroll fees	143	148	143	1,614	-	2,048	1,075	16	1,091	3,139
Health insurance	6,822	6,820	6,819	5,189	-	25,650	3,755	559	4,314	29,964
TOTAL PAYROLL AND RELATED EXPENSES	89,381	89,387	89,399	82,512	-	350,679	25,081	4,527	29,608	380,287
Gas	8,885	8,885	8,884	-	-	26,654	-	-	-	26,654
Costs of goods sold	-	-	-	13,448	-	13,448	-	-	-	13,448
Property supplies & maintenance	20,577	19,407	18,593	12,708	-	71,285	420	-	420	71,705
Depreciation	17,629	17,629	17,630	1,600	-	54,488	-	-	-	54,488
Occupancy	15,310	15,309	15,309	20,112	-	66,040	3,820	3,820	7,640	73,680
Vehicle expenses	4,791	5,543	5,167	-	-	15,501	195	-	195	15,696
Computer services	952	865	866	855	-	3,538	165	118	283	3,821
Food	21,610	27,345	23,648	-	-	72,603	-	-	-	72,603
Accounting fees	7,050	-	-	1,800	-	8,850	9,000	-	9,000	17,850
Contract labor	18,750	-	-	8,516	-	27,266	-	-	-	27,266
Insurance	8,131	8,131	8,130	4,073	-	28,465	3,304	3,264	6,568	35,033
Office expenses	1,752	2,166	1,909	4,801	-	10,628	1,989	876	2,865	13,493
Telephone	4,441	4,440	4,439	-	-	13,320	1,186	1,550	2,736	16,056
Travel and meetings	4,787	4,787	4,788	-	-	14,362	852	339	1,191	15,553
Bank and merchant fees	-	-	-	706	-	706	10,271	-	10,271	10,977
Repairs and maintenance	-	-	-	661	-	661	-	-	-	661
Marketing	2,976	2,976	2,976	11,704	-	20,632	-	45,971	45,971	66,603
Servant table	-	-	-	-	31,498	31,498	-	-	-	31,498
Other expenses	8,446	12,642	8,772	3,042	-	32,902	5,052	1,001	6,053	38,955
Special events	-	-	-	-	-	-	-	4,244	4,244	4,244
Scholarship expenses	-	-	-	-	-	-	46,033	-	46,033	46,033
TOTAL EXPENSES	235,468	219,512	210,510	166,538	31,498	863,526	107,368	65,710	173,078	1,036,604
Less: expenses netted with revenue on statement of activities;	-	-	-	-	-	-	-	(4,244)	(4,244)	(4,244)
Special event expenses	-	-	-	-	-	-	(46,033)	-	(46,033)	(46,033)
Scholarship expenses	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES BY FUNCTION	\$ 235,468	\$ 219,512	\$ 210,510	\$ 166,538	\$ 31,498	\$ 863,526	\$ 61,335	\$ 61,466	\$ 122,801	\$ 986,327

See accompanying notes to the consolidated financial statements.

NARROW GATE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

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.

During 2013, Narrow Gate Foundation created a separate for-profit entity subsidiary, Narrow Gate Artisan ("Artisan"), designed 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 Artisan, (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, 2013

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, 2013.

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 Statement of Activities as net assets released from restrictions.

The Agency 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.

Tuition Revenue and Related Receivables

Tuition and program fees are recorded as revenues during the year the related program services are rendered. Financial aid in the form of sponsorships are paid by foundation grants, individual contributions and business contributions for tuition and as such, are reflected as reductions in tuition and program fees.

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 offset 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. The present value of these estimated future cash flows is recorded as tuition receivable.

The Organization periodically evaluates the balances on a student-by-student basis based on payment history to determine if any balances are uncollectible. When the Organization determines that a receivable is uncollectible, the balance is removed from the receivables balance and charged directly against revenue. The Organization believes that all tuition receivables are fully collectible. Accordingly, no allowance for doubtful accounts is required as of December 31, 2013.

NARROW GATE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash

Cash consists principally of checking account balances.

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 \$1,000 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, which range from 5 to 15 years. Expenditures for repairs and maintenance are charged to operations when incurred.

Deferred Revenue

Tuition and fees collected in advance of being earned have been included in the Statement of Financial Position as deferred revenue. Such deferred revenue is recognizable within at least one year.

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.

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.

NARROW GATE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Accordingly, income taxes are not provided. The Foundations returns for years prior to fiscal year 2010 are no longer open to examination.

Artisan will file a U.S. Federal Form 1120 for the year ending December 31, 2013.

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 financial statements.

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.

NARROW GATE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2013 and October 14, 2014, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - CONCENTRATIONS OF CREDIT RISK

The Organization maintains cash balances at several financial institutions, which, at times, exceed the Federal Deposit Insurance Corporation limit. The Organization has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on cash balances.

During the year ended December 31, 2013, the Organization received contributions from two donors totaling \$275,000 or 38% of total contributions.

NOTE 3 - TUITION AND ACCOUNTS RECEIVABLE

Tuition and accounts receivable consisted of the following as of December 31, 2013:

Tuition receivable	\$ 59,447
Accounts receivable	<u>2,664</u>
	<u>\$ 62,111</u>

NARROW GATE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2013

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2013:

Leasehold improvements	\$ 234,701
Furniture and fixtures	61,825
Equipment	121,683
Vehicles	<u>122,450</u>
	540,659
Less: accumulated depreciation	<u>(270,015)</u>
	<u>\$ 270,644</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, 2013, rent expense totaled \$30,600. 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 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, 2013 follows:

<u>Year ending June 30,</u>	
2014	\$ 30,600
2015	30,600
2016	30,600
2017	<u>22,950</u>
	<u>\$ 114,750</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 is currently on a month-to-month basis as the lessor and the Organization work to finalize an extension.

Total rent expense was approximately \$47,500 for the year ended December 31, 2013.

NARROW GATE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2013

NOTE 6 - IN KIND DONATIONS

The Organization received in kind donations for the year ended December 31, 2013 as follows:

Facilities rental	\$ 30,600
Property and equipment	74,729
Professional services	<u>11,975</u>
	<u>\$ 117,304</u>

NOTE 7 - RELATED PARTY TRANSACTIONS

The Organization purchases technology support services from a company partially owned by a board member. For the year ending December 31, 2013, such services totaled \$14,977.