

NARROW GATE FOUNDATION
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2012

NARROW GATE FOUNDATION
Financial Statements
DECEMBER 31, 2012

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-10



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Narrow Gate Foundation

We have audited the accompanying statement of financial position of Narrow Gate Foundation as of December 31, 2012, and the related statement of activities, cash flows and functional expenses 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.

Auditor's 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 of material misstatement.

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 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 financial statements referred to above present fairly, in all material respects, the financial position of Narrow Gate Foundation as of December 31, 2012, 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.


April 10, 2013

**NARROW GATE FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012**

ASSETS

Current Assets

Cash	\$ 279,261
Tuition receivable	123,055
Total Current Assets	<u>402,316</u>

Property and Equipment

Leasehold improvements	232,049
Furniture and fixtures	61,825
Equipment	95,452
Vehicles	28,550
	<u>417,876</u>
Less: accumulated depreciation	<u>(204,612)</u>
Total property and equipment	213,264
Total Assets	<u><u>\$ 615,580</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 8,052
Deferred revenue	46,875
Total Current Liabilities	<u>54,927</u>

Net Assets

Unrestricted	<u>560,653</u>
Total Liabilities and Net Assets	<u><u>\$ 615,580</u></u>

The accompanying notes are an integral part of these financial statements

**NARROW GATE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Unrestricted</u>
Public Support and Revenue	
Public Support:	
Contributions	\$ 453,457
Grant income	30,550
In-kind contributions	43,165
Special event revenue:	
Revenue	69,644
Less direct costs	(17,383)
Net revenue from special events	52,261
Total public support	579,433
 Revenue:	
Tuition income	195,658
Less: scholarship expense	(34,492)
Net tuition income	161,166
Enrollment fees	23,000
Application fees	1,400
Interest income	156
Total revenue	<u>185,722</u>
Total Public Support and Revenue	<u>765,155</u>
 Expenses	
Program services	539,902
Management and general	58,033
Fundraising	53,835
Total Expenses	<u>651,770</u>
 Change in net assets	113,385
Net assets at beginning of year	447,268
Net assets at end of year	<u><u>\$ 560,653</u></u>

The accompanying notes are an integral part of these financial statements

**NARROW GATE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Program Services				Supporting Services			Total Expenses
	Foundation	Community	Service	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Payroll	\$ 63,271	\$ 63,692	\$ 62,072	\$ 189,035	\$ 16,116	\$ 23,016	\$ 39,132	\$ 228,167
Payroll taxes	4,487	4,454	4,379	13,320	639	1,731	2,370	15,690
Health insurance	4,274	4,033	4,288	12,595	1,963	2,460	4,423	17,018
Total compensation	<u>72,032</u>	<u>72,179</u>	<u>70,739</u>	<u>214,950</u>	<u>18,718</u>	<u>27,207</u>	<u>45,925</u>	<u>260,875</u>
Gas	9,774	10,097	9,700	29,571	-	22	22	29,593
Property supplies & maintenance	14,327	12,491	12,808	39,626	825	63	888	40,514
Depreciation	14,251	14,252	14,251	42,754	-	-	-	42,754
Occupancy	14,880	14,931	14,931	44,742	3,825	3,818	7,643	52,385
Vehicle expenses	3,412	3,651	3,646	10,709	107	-	106	10,815
Computer services	318	318	1,415	2,051	538	2,948	3,486	5,537
Food	22,201	26,332	23,285	71,818	-	525	525	72,343
Accounting fees	-	-	-	-	13,250	-	13,250	13,250
Contract labor	667	4,917	1,666	7,250	-	-	-	7,250
Insurance	7,329	7,329	7,329	21,987	3,615	2,400	6,015	28,002
Office expenses	291	1,346	527	2,164	362	270	632	2,796
Legal fees	60	-	-	60	6,245	-	6,245	6,305
Telephone	3,778	3,888	3,868	11,534	1,346	2,481	3,827	15,361
Travel and meetings	231	312	1,257	1,800	-	1,612	1,612	3,412
Bank and merchant fees	22	22	22	66	6,584	-	6,584	6,650
Video and audio production	2,739	2,897	2,795	8,431	-	-	-	8,431
Marketing	-	-	-	-	-	10,782	10,782	10,782
Servant tables	-	-	5,931	5,931	-	-	-	5,931
Other expenses	7,791	7,684	8,983	24,458	2,618	1,707	4,325	28,783
Special event expenses	-	-	-	-	-	17,383	17,383	17,383
Scholarship expenses	11,498	11,498	11,496	34,492	-	-	-	34,492
Total expenses	<u>185,601</u>	<u>194,144</u>	<u>194,649</u>	<u>574,394</u>	<u>58,033</u>	<u>71,218</u>	<u>129,251</u>	<u>703,645</u>
Less: expenses netted with revenue on statement of activities;								
Special event expenses						(17,383)	(17,383)	(17,383)
Scholarship expenses	(11,498)	(11,498)	(11,496)	(34,492)	-	-	-	(34,492)
Total expenses by function	<u>\$ 174,103</u>	<u>\$ 182,646</u>	<u>\$ 183,153</u>	<u>\$ 539,902</u>	<u>\$ 58,033</u>	<u>\$ 53,835</u>	<u>\$ 111,868</u>	<u>\$ 651,770</u>
Current year's percentages	26.71%	28.02%	28.10%	82.84%	8.90%	8.26%	17.16%	100.00%

The accompanying notes are an integral part of these financial statements

**NARROW GATE FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Cash Flows From Operating Activities:

Change in net assets	\$ 113,385
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	42,754
Changes in operating assets and liabilities:	
Tuition receivable	(1,944)
Accounts payable	496
Deferred revenue	(3,500)
Net cash used in operating activities	<u>151,191</u>

Cash flows From Investing Activities

Purchase of equipment	<u>(6,749)</u>
Net cash used in investing activities	<u>(6,749)</u>
Net change in cash and cash equivalents	144,442
Cash at beginning of year	134,819
Cash at end of year	<u><u>\$ 279,261</u></u>

Supplemental schedule of noncash operating activities:

In-kind contributions of facility services	\$ 30,600
In-kind contributions of accounting services	9,000
In-kind contributions of website services	3,565
Total In-kind contributions	<u><u>\$ 43,165</u></u>

The accompanying notes are an integral part of these financial statements

NARROW GATE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Narrow Gate Foundation (the “Organization”) 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 develop 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 Organization is supported primarily through individual and business contributions.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Organization and/or the passage of time. Restrictions that are fulfilled in the same accounting period in which the contributions are received are reported in the statement of activities as unrestricted. When a restriction expires in a period after the contributions are received, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned and any related investments for general or specific purposes.

The amount for each of these classes of net assets is displayed in the statement of financial position and the amount of change in each class of net assets is displayed in the statement of activities. There were no permanently restricted net assets as of December 31, 2012.

**NARROW GATE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all cash funds, cash bank accounts and highly liquid debt instruments, with an original maturity when purchased of three months or less, to be cash and cash equivalents. At December 31, 2012, the Organization had no cash equivalents.

Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when the stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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 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. 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, 2012.

NARROW GATE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property and Equipment

Property and equipment are recorded at cost to the Organization, or if donated, at the estimated fair market value at the date of donation. All depreciation is computed using the straight-line method based on 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.

Expense Allocation

The costs of providing program services and supporting services have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among program and supporting services on actual or estimated time employees spend on each function.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. The most significant area is the recovery period for building and related building improvements. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate. Accordingly, actual results could differ from those estimates.

Income Taxes

The Organization is a not-for-profit organization exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code, and the Organization is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements

NARROW GATE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial Instruments

The Organization has an established process for determining fair values. Fair values are based upon market prices, where available. Assets and liabilities recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by generally accepted accounting principles, are as follows:

Level 1 – Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 – Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The Organization's financial instruments consist of tuition receivable, accounts payable and deferred revenue. The recorded values of all the Organization's financial instruments approximate their fair values based on their short-term nature. While the Organization believes its valuation methodologies are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

NARROW GATE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 2 – LEASE COMMITMENT

The Organization is obligated under an operating lease agreement for residential property, which is owned by a related party via common board of directors' member. . 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, 2012, rent expense totaled \$30,600. The lessor has forgiven the rent for this fiscal year end, which is recognized and recorded as an in-kind contribution in the accompanying statement of activities. The lease expires September 30, 2016.

NOTE 3 – DONATED SERVICES

A business donated accounting services to the Organization in the amount of \$9,000 for the year ended December 31, 2012. The value of donated accounting services is reflected as a contribution and as accounting expense in the statement of activities at its fair value at the date of receipt for the year ended December 31, 2012.

NOTE 4 – SUBSEQUENT EVENTS

The Organization evaluated subsequent events through April 10, 2013, the issuance of the Organization's financial statements.