

NARROW GATE FOUNDATION AND SUBSIDIARY

WILLIAMSPORT, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2014

NARROW GATE FOUNDATION AND SUBSIDIARY

WILLIAMSPORT, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS,
AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2014

CONTENTS

	<u>PAGE</u>
<u>INDEPENDENT AUDITOR'S REPORT</u>	1 - 2
 <u>FINANCIAL STATEMENTS</u>	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Cash Flows.....	5
Consolidated Statement of Functional Expenses	6
Notes to Consolidated Financial Statements.....	7 - 13



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, 2014, and the related statements of activities, cash flows and functional expenses, for the year 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 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 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 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 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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

EMPHASIS OF MATTER

As discussed in Note 7 to the consolidated financial statements, a prior period adjustment has been made to properly report tuition payments from program participants as of December 31, 2013.

Kraft CPAs PLLC

Nashville, Tennessee
September 18, 2015

NARROW GATE FOUNDATION AND SUBSIDIARY, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2014

ASSETS

Cash	\$	183,585
Accounts receivable		114
Property and equipment, net		<u>242,554</u>
TOTAL ASSETS	\$	<u>426,253</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	\$	<u>9,656</u>
TOTAL LIABILITIES		<u>9,656</u>
NET ASSETS		
Unrestricted:		
Designated for property and equipment		242,554
Undesignated		<u>174,043</u>
TOTAL NET ASSETS		<u>416,597</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>426,253</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, 2014

	<u>Unrestricted</u>
SUPPORT AND REVENUE	
PUBLIC SUPPORT	
Contributions	\$ 652,971
In-kind contributions	42,150
Special events	212,529
Less: direct expenses	<u>(60,881)</u>
Total public support	846,769
OTHER REVENUE	
Tuition revenue	87,468
Enrollment fees	19,000
Application fees	<u>1,700</u>
Net tuition and related revenue	108,168
Artisan sales	161,130
Servant table	19,600
Other revenue	64,806
Interest income	<u>88</u>
TOTAL SUPPORT AND REVENUE	<u>1,200,561</u>
EXPENSES	
Program services	1,130,424
Supporting services:	
Management and general	64,062
Fundraising	<u>89,064</u>
TOTAL EXPENSES	<u>1,283,550</u>
CHANGE IN NET ASSETS	(82,989)
NET ASSETS - BEGINNING OF YEAR, as restated	<u>499,586</u>
NET ASSETS - END OF YEAR	<u>\$ 416,597</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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (82,989)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	49,143
Decrease (increase) in:	
Accounts receivable	2,550
Increase (decrease) in:	
Accounts payable and accrued expenses	<u>4,323</u>
TOTAL ADJUSTMENTS	<u>56,016</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(26,973)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	<u>(21,053)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(21,053)</u>
DECREASE IN CASH	(48,026)
CASH - BEGINNING OF YEAR	<u>231,611</u>
CASH - END OF YEAR	<u>\$ 183,585</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, 2014

	PROGRAM SERVICES					SUPPORTING SERVICES					TOTAL EXPENSES
	FOUNDATION	COMMUNITY	SERVICE	ARTISAN	SERVANT TABLE	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL SUPPORTING SERVICES		
Payroll	\$ 93,450	\$ 94,948	\$ 117,866	\$ 95,754	\$ 22,896	\$ 424,914	\$ 19,879	\$ 15,146	\$ 35,025	\$ 459,939	
Payroll taxes	6,464	6,463	7,997	5,341	1,534	27,799	982	1,104	2,086	29,885	
Payroll fees	143	144	156	-	63	506	1,228	30	1,258	1,764	
Health insurance	9,091	9,096	8,552	-	1,627	28,366	3,592	-	3,592	31,958	
TOTAL PAYROLL AND RELATED EXPENSES	109,148	110,651	134,571	101,095	26,120	481,585	25,681	16,280	41,961	523,546	
Gas	12,584	12,646	10,538	-	1,972	37,740	-	-	-	37,740	
Costs of goods sold	-	-	-	73,475	-	73,475	-	-	-	73,475	
Property supplies & maintenance	25,110	25,036	22,670	2,298	273	75,387	-	73	73	75,460	
Depreciation	14,628	14,628	14,628	5,259	-	49,143	-	-	-	49,143	
Occupancy	18,330	17,101	17,729	37,542	-	90,702	3,825	3,883	7,708	98,410	
Vehicle expenses	4,348	4,348	4,348	-	-	13,044	12	325	337	13,381	
Computer services	602	602	601	-	360	2,165	1,972	-	1,972	4,137	
Food	27,262	34,040	29,937	-	190	91,429	-	-	-	91,429	
Accounting fees	-	-	-	7,200	-	7,200	20,627	-	20,627	27,827	
Contract labor	2,750	2,750	2,750	-	-	8,250	160	9,000	9,160	17,410	
Insurance	10,068	10,068	10,069	6,886	-	37,091	150	-	150	37,241	
Office expenses	1,292	1,239	1,245	5,810	579	10,165	1,416	2,512	3,928	14,093	
Telephone	3,260	3,260	3,261	-	2,293	12,074	13	2,686	2,699	14,773	
Travel and meetings	-	-	-	1,387	-	1,387	-	923	923	2,310	
Bank and merchant fees	-	-	-	112	-	112	10,067	-	10,067	10,179	
Repairs and maintenance	-	-	-	1,724	-	1,724	-	-	-	1,724	
Marketing	27,222	27,222	27,221	3,711	166	85,542	139	51,639	51,778	137,320	
Servant table	-	-	879	-	11,535	12,414	-	-	-	12,414	
Other expenses	5,505	10,362	14,239	8,212	1,477	39,795	-	1,743	1,743	41,538	
Special events	-	-	-	-	-	-	-	60,881	60,881	60,881	
TOTAL EXPENSES	262,109	273,953	294,686	254,711	44,965	1,130,424	64,062	149,945	214,007	1,344,431	
Less: expenses netted with revenue on statement of activities											
Special event expenses	-	-	-	-	-	-	-	(60,881)	(60,881)	(60,881)	
TOTAL EXPENSES BY FUNCTION	\$ 262,109	\$ 273,953	\$ 294,686	\$ 254,711	\$ 44,965	\$ 1,130,424	\$ 64,062	\$ 89,064	\$ 153,126	\$ 1,283,550	

See accompanying notes to the consolidated financial statements.

NARROW GATE FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

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 Artisan ("Artisan"), 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 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, 2014

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, 2014.

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 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.

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 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. Nevertheless, the collectability of these payments is not reasonably assured and, therefore, tuition revenue is recognized when it is received.

NARROW GATE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014

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 \$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.

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, 2014

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 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 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, 2014

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, 2014 and September 18, 2015, 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, may 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, 2014, the Organization received contributions from two donors totaling \$205,500 or 31% of total contributions.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2014:

Leasehold improvements	\$ 255,752
Furniture and fixtures	61,825
Equipment	121,683
Vehicles	<u>122,450</u>
	561,710
Less: accumulated depreciation	<u>(319,156)</u>
	<u>\$ 242,554</u>

NARROW GATE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014

NOTE 4 - 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, 2014, 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 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, 2014 follows:

<u>Year ending June 30,</u>	
2015	\$ 30,600
2016	30,600
2017	<u>22,950</u>
	<u>\$ 84,150</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 \$59,200 for the year ended December 31, 2014.

NOTE 5 - IN-KIND DONATIONS

The Organization received in-kind donations for the year ended December 31, 2014 as follows:

Facilities rental	\$ 30,600
Professional services	<u>11,550</u>
	<u>\$ 42,150</u>

NARROW GATE FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014

NOTE 6 - RELATED PARTY TRANSACTIONS

The Organization purchases technology support services from a company partially owned by a board member. For the year ending December 31, 2014, such services totaled \$2,550.

NOTE 7 - PRIOR PERIOD ADJUSTMENT

A prior period adjustment has been made to the Organization's net assets as of January 1, 2014 to properly recognize tuition payments received by program participants.

A schedule of the restatement follows:

Net assets - January 1, 2014, as previously reported	\$	510,908
To correct reporting of tuition receivable and related revenue		<u>(11,322)</u>
Net assets - January 1, 2014, as restated	\$	<u>499,586</u>