

NARROW GATE FOUNDATION
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2011

**NARROW GATE FOUNDATION
Financial Statements
DECEMBER 31, 2011**

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INDEPENDENT AUDITOR'S REPORT

To Board of Directors
of Narrow Gate Foundation
Nashville, Tennessee

We have audited the accompanying statement of financial position of Narrow Gate Foundation as of December 31, 2011, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, 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.

A handwritten signature in black ink, appearing to read "Thomas Financial Resources".

April 24, 2012

**NARROW GATE FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011**

ASSETS

Current Assets

Cash	\$ 134,819
Tuition receivable	121,111
Total Current Assets	<u>255,930</u>

Property and Equipment

Leasehold improvements	232,049
Furniture and fixtures	61,825
Equipment	88,703
Vehicles	28,550
	<u>411,127</u>
Less: accumulated depreciation	<u>(161,858)</u>
Total property and equipment	249,269
Total Assets	<u><u>\$ 505,199</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 7,556
Deferred revenue	50,375
Total Current Liabilities	<u>57,931</u>

Net Assets

Unrestricted	447,268
Total Liabilities and Net Assets	<u><u>\$ 505,199</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, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support and Revenue			
Public Support:			
Contributions	\$ 481,180	\$ -	\$ 481,180
Grant income	56,480	-	56,480
In-kind contributions	39,600	-	39,600
Total public support	<u>577,260</u>	<u>0</u>	<u>577,260</u>
Revenue:			
Tuition income	186,771	-	186,771
Less: scholarship expense	<u>(52,000)</u>	<u>-</u>	<u>(52,000)</u>
Net tuition income	134,771	-	134,771
Enrollment fees	19,500	-	19,500
Application fees	2,000	-	2,000
Interest income	188	-	188
Total revenue	<u>156,459</u>	<u>0</u>	<u>156,459</u>
Net assets released from restrictions	<u>11,372</u>	<u>(11,372)</u>	<u>-</u>
Total Public Support and Revenue	<u>745,091</u>	<u>(11,372)</u>	<u>733,719</u>
Expenses			
Program services	587,925	-	587,925
Management and general	79,887	-	79,887
Fundraising	73,089	-	73,089
Total Expenses	<u>740,901</u>	<u>-</u>	<u>740,901</u>
Change in net assets	4,190	(11,372)	(7,182)
Net assets at beginning of year	443,078	11,372	454,450
Net assets at end of year	<u>\$ 447,268</u>	<u>\$ -</u>	<u>\$ 447,268</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, 2011**

	Program Services					Supporting Services			Total Expenses
	Foundation	Community	Service	Graduate Studies	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Payroll	\$ 74,998	\$ 67,922	\$ 55,305	\$ 30,208	\$ 228,433	\$ 20,697	\$ 21,875	\$ 42,572	\$ 271,005
Payroll taxes	5,316	4,412	3,587	1,888	15,203	811	1,673	2,484	17,687
Health insurance	4,732	4,097	2,621	2,814	14,264	1,925	3,273	5,198	19,462
Total compensation	<u>85,046</u>	<u>76,431</u>	<u>61,513</u>	<u>34,910</u>	<u>257,900</u>	<u>23,433</u>	<u>26,821</u>	<u>50,254</u>	<u>308,154</u>
Gas	11,133	11,012	10,686	-	32,831	-	22	22	32,853
Property supplies & maintenance	24,833	24,897	23,757	-	73,487	255	193	448	73,935
Depreciation	7,126	7,126	7,126	7,125	28,503	7,126	7,125	14,251	42,754
Occupancy	16,142	15,731	15,731	-	47,604	5,101	5,123	10,224	57,828
Missions	-	-	-	1,589	1,589	-	-	-	1,589
Vehicle expenses	3,307	3,811	3,518	-	10,636	25	42	67	10,703
Computer services	479	479	489	-	1,447	328	4,175	4,503	5,950
Food	24,324	28,389	21,638	3,981	78,332	119	472	591	78,923
Accounting fees	-	-	-	-	-	15,500	-	15,500	15,500
Insurance	5,884	6,031	6,031	609	18,555	6,357	1,074	7,431	25,986
Office expenses	3,052	1,364	1,328	267	6,011	1,571	1,102	2,673	8,684
Telephone	2,870	3,433	3,479	428	10,210	4,742	2,645	7,387	17,597
Travel and meetings	461	792	461	-	1,714	330	423	753	2,467
Bank and merchant fees	-	-	-	-	-	8,631	-	8,631	8,631
Marketing	-	-	-	-	-	-	17,503	17,503	17,503
Other expenses	6,369	6,369	6,368	-	19,106	6,369	6,369	12,738	31,844
Scholarship expenses	17,333	17,334	17,333	-	52,000	-	-	-	52,000
Total expenses	<u>208,359</u>	<u>203,199</u>	<u>179,458</u>	<u>48,909</u>	<u>639,925</u>	<u>79,887</u>	<u>73,089</u>	<u>152,976</u>	<u>792,901</u>
Less: expenses netted with revenue on statement of activities;									
Scholarship expenses	(17,333)	(17,334)	(17,333)	-	(52,000)	-	-	-	(52,000)
Total expenses by function	<u>\$ 191,026</u>	<u>\$ 185,865</u>	<u>\$ 162,125</u>	<u>\$ 48,909</u>	<u>\$ 587,925</u>	<u>\$ 79,887</u>	<u>\$ 73,089</u>	<u>\$ 152,976</u>	<u>\$ 740,901</u>
Current year's percentages	25.78%	25.09%	21.88%	6.60%	79.35%	10.78%	9.86%	20.65%	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, 2011**

Cash Flows From Operating Activities:

Change in net assets	\$ (7,182)
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	(23,794)
Accounts payable	(4,551)
Deferred revenue	<u>(11,375)</u>
Net cash used in operating activities	<u>(4,148)</u>
Net change in cash and cash equivalents	(4,148)
Cash at beginning of year	138,967
Cash at end of year	<u><u>\$ 134,819</u></u>

Supplemental schedule of noncash operating activities:

In-kind contributions of facility services	\$ 30,600
In-kind contributions of accounting services	9,000
Total In-kind contributions	<u><u>\$ 39,600</u></u>

The accompanying notes are an integral part of these financial statements

NARROW GATE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

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, 2011.

**NARROW GATE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

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, 2011, 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, 2011.

NARROW GATE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

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, 2011**

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, 2011**

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, 2011, 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 SERVICE

A business donated accounting services to the Organization in the amount of \$9,000 for the year ended December 31, 2011. 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, 2011.

NOTE 4 – RESTRICTIONS ON NET ASSETS

During fiscal year ended December 31, 2011, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

Road repairs and improvements	<u>\$11,372</u>
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NOTE 5 – SUBSEQUENT EVENTS

The Organization evaluated subsequent events through April 24, 2012, the issuance of the Organization's financial statements.