

NARROW GATE FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2010

NARROW GATE FOUNDATION
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2010

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Financial Statements
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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, 2010, 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 audits.

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, 2010, 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.

Thomason Financial Resources

February 25, 2011

NARROW GATE FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010

ASSETS

Current Assets

Cash	\$ 138,967
Tuition receivable	97,318
Total Current Assets	<u>\$ 236,285</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	(119,105)
Total property and equipment	<u>292,022</u>

Total Assets \$ 528,307

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	12,107
Deferred revenue	61,750
Total Current Liabilities	<u>73,857</u>

Net Assets

Unrestricted	454,450
Total Liabilities and Net Assets	<u><u>\$ 528,307</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, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support and Revenue			
Public Support:			
Contributions	\$ 430,302	\$ 20,000	\$ 450,302
Grant income	85,300	-	85,300
In-kind contribution	51,164	-	51,164
Total public support	<u>566,766</u>	<u>20,000</u>	<u>586,766</u>
Revenue:			
Tuition income	134,696	-	134,696
Less: scholarship expense	(85,475)	-	(85,475)
Net tuition income	<u>49,221</u>	<u>-</u>	<u>49,221</u>
Enrollment fees	19,000	-	19,000
Application fees	2,400	-	2,400
Interest income	379	-	379
Total revenue	<u>71,000</u>	<u>-</u>	<u>71,000</u>
Net assets released from restrictions	<u>8,628</u>	<u>(8,628)</u>	<u>-</u>
Total Public Support and Revenue	<u>646,394</u>	<u>11,372</u>	<u>657,766</u>
Expenses			
Program services	562,843	-	562,843
Management and general	107,710	-	107,710
Fundraising	68,337	-	68,337
Total Expenses	<u>738,890</u>	<u>-</u>	<u>738,890</u>
Loss on disposal of vehicle	<u>6,388</u>	<u>-</u>	<u>6,388</u>
Decrease (Increase) in net assets	(98,884)	11,372	(87,512)
Net assets at beginning of year	541,962	-	541,962
Net assets at end of year	<u>\$ 443,078</u>	<u>\$ 11,372</u>	<u>\$ 454,450</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, 2010

	Program Services					Supporting Services			Total Expenses
	Foundation	Community	Service	Graduate Studies	Total Program Services	Management and General	Fundraising	Supporting Services	
Payroll	\$ 46,575	\$ 83,918	\$ 33,267	\$ 26,497	\$ 190,257	\$ 36,094	\$ 21,378	\$ 57,472	\$ 247,729
Payroll taxes	3,713	6,163	2,937	2,775	15,588	3,022	3,182	6,204	21,792
Health insurance	3,609	3,127	2,073	3,595	12,404	2,425	3,726	6,151	18,555
Total compensation	53,897	93,208	38,277	32,867	218,249	41,541	28,286	69,827	288,076
Gas	9,937	10,159	9,541	59	29,696	-	-	-	29,696
Property supplies & maintenance	15,651	20,466	20,656	354	57,127	1,375	1,194	2,569	59,696
Depreciation	7,882	7,882	7,881	5,451	29,096	5,454	5,454	10,908	40,004
Occupancy	15,061	12,424	12,297	7,214	46,996	5,185	5,100	10,285	57,281
Missions	1,000	150	1,003	634	2,787	-	5	5	2,792
Vehicle expenses	5,007	5,417	5,169	356	15,949	363	203	566	16,515
Computer services	2,920	3,404	2,851	-	9,175	5,188	2,487	7,675	16,850
Food	21,388	21,249	20,431	9,709	72,777	-	306	306	73,083
Accounting fees	-	-	-	-	-	15,575	-	15,575	15,575
Legal fees	-	20	60	-	80	7,285	-	7,285	7,365
Insurance	6,435	6,828	6,829	1,566	21,658	2,882	1,865	4,747	26,405
Office expenses	708	680	680	-	2,068	1,493	1,087	2,580	4,648
Telephone	3,088	3,118	3,175	1,912	11,293	4,947	2,168	7,115	18,408
Travel and meetings	4,480	8,372	8,364	1,717	22,933	5,319	105	5,424	28,357
Bank and merchant fees	387	319	323	-	1,029	8,116	90	8,206	9,235
Marketing	-	-	-	-	-	225	19,089	19,314	19,314
Other expenses	7,310	7,310	7,310	-	21,930	2,762	898	3,660	25,590
Scholarship expenses	28,491	28,492	28,492	-	85,475	-	-	-	85,475
Total expenses	183,642	229,498	173,339	61,839	648,318	107,710	68,337	176,047	824,365
Less: expenses netted with revenue on statement of activities:									
Scholarship expenses	(28,491)	(28,492)	(28,492)	-	(85,475)	-	-	-	(85,475)
Total expenses by function	\$ 155,151	\$ 201,006	\$ 144,847	\$ 61,839	\$ 562,843	\$ 107,710	\$ 68,337	\$ 176,047	\$ 738,890
Current year's percentages	21.00%	27.20%	19.60%	8.37%	76.17%	14.58%	9.25%	23.83%	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, 2010**

Cash Flows From Operating Activities:

Decrease in net assets	\$ (87,512)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	40,004
In-kind donation of equipment	(11,564)
Loss on disposal of vehicle	6,388
Changes in operating assets and liabilities:	
Tuition receivable	27,323
Accounts payable	12,107
Deferred revenue	21,450
Net cash provided by operating activities	<u>8,196</u>

Cash flows From Financing Activities

Purchase of vehicles and equipment	<u>(86,409)</u>
Net cash used in investing activities	<u>(86,409)</u>
Net decrease in cash and cash equivalents	(78,213)
Cash at beginning of year	217,180
Cash at end of year	<u><u>\$ 138,967</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 equipment	11,564
Total In-kind contributions	<u><u>\$ 51,164</u></u>

The accompanying notes are an integral part of these financial statements

**NARROW GATE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

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 share 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 temporarily or permanently restricted net assets as of December 31, 2010.

**NARROW GATE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

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, 2010, 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 Receivable

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 Narrow Gate. 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, 2010.

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.

NARROW GATE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 programs and supporting services based 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 capital improvements and equipment. 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, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial Instruments

Financial accounting standards relating to fair value measurements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

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, 2010**

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. Beginning January 1, 2009, the Organization shall not pay any rent for its use and occupancy of the property except for a reasonably allocated share of the cost of use of the property. Rent expense totaled \$30,600 for the year ended December 31, 2010, which is an in-kind contribution in the accompanying statement of activities. The lease expires September 30, 2011.

NOTE 3 – DONATED SERVICES & EQUIPMENT

A business donated accounting services to the Organization in the amount of \$9,000 and donated equipment was received by the Organization in the amount of \$11,564 for the year ended December 31, 2010. The value of donated accounting services and donated equipment is reflected as contributions in the statement of activities at its fair value at the date of receipt for the year ended December 31, 2010. The value of donated accounting services is also included in the statement of activities as accounting expense. The value of donated equipment is capitalized as equipment in the statement of financial position.

NOTE 4 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets consist of the following at December 31, 2010 for the following purpose:

Road repairs and improvement	<u>\$11,372</u>
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During fiscal year ended December 31, 2010, 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 improvement	<u>\$ 8,628</u>
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NOTE 5 – SUBSEQUENT EVENTS

The Organization evaluated subsequent events through February 25, 2011, the issuance of the Organization's financial statements.