

**BAREFOOT REPUBLIC, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2012**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Barefoot Republic, Inc.

We have audited the accompanying statement of financial position of Barefoot Republic, Inc. (a Kentucky not-for-profit corporation, the "Organization") as of September 30, 2012 and the related statements of activities, functional expenses and cash flows 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 Barefoot Republic, Inc. as of September 30, 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.

Blankenship CPA Group, PLLC

May 8, 2013

BAREFOOT REPUBLIC, INC.
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2012

ASSETS

Current Assets:	
Cash - unrestricted	\$ 28,047
Cash - restricted	48,000
Total cash	<u>76,047</u>
Accounts receivable	6,510
Prepaid expenses	<u>2,658</u>
Total Current Assets	85,215
Property and equipment, net	<u>1,235,250</u>
Total Assets	<u><u>\$ 1,320,465</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable	\$ 2,089
Accrued expenses	2,854
Deferred revenue	17,500
Notes payable, current portion	<u>46,605</u>
Total Current Liabilities	69,048
Notes payable, net of current portion	<u>29,664</u>
Total Liabilities	<u>98,712</u>
Net Assets:	
Unrestricted	1,173,753
Temporarily restricted	<u>48,000</u>
Total Net Assets	<u>1,221,753</u>
Total Liabilities and Net Assets	<u><u>\$ 1,320,465</u></u>

The accompanying notes are an integral part of these financial statements.

BAREFOOT REPUBLIC, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2012

	Unrestricted	Temporarily Restricted	Total
Operating revenues:			
Program revenue	\$ 121,165	\$ -	\$ 121,165
Facility rentals	91,841	-	91,841
Other	2,501	-	2,501
	<u>215,507</u>	<u>-</u>	<u>215,507</u>
Total operating revenues			
	<u>215,507</u>	<u>-</u>	<u>215,507</u>
Public support and other revenues:			
Contributions	189,550		189,550
Capital funds	73,659	48,000	121,659
Special events	113,658	-	113,658
	<u>376,867</u>	<u>48,000</u>	<u>424,867</u>
Total public support and other revenues			
	<u>376,867</u>	<u>48,000</u>	<u>424,867</u>
Total revenues			
	<u>592,374</u>	<u>48,000</u>	<u>640,374</u>
Functional expenses:			
Program services	308,522	-	308,522
Supporting services:			
Management and general	89,791	-	89,791
Fundraising	74,462	-	74,462
	<u>472,775</u>	<u>-</u>	<u>472,775</u>
Total functional expenses			
	<u>472,775</u>	<u>-</u>	<u>472,775</u>
Increase in net assets	119,599	48,000	167,599
Net assets, beginning of year	1,054,154	-	1,054,154
Net assets, end of year	<u>\$ 1,173,753</u>	<u>\$ 48,000</u>	<u>\$ 1,221,753</u>

The accompanying notes are an integral part of these financial statements.

BAREFOOT REPUBLIC, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2012

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Camp Expense	\$ 95,092	\$ -	\$ -	\$ 95,092
Payroll Expense	76,854	60,769	45,012	182,635
Facilities and Equipment	37,816	-	-	37,816
Occupancy	30,000	7,951	-	37,951
Utilities	17,603	4,387	-	21,990
Insurance	8,802	978	-	9,780
Fall Banquet	-	-	20,781	20,781
Other Events	-	-	2,670	2,670
Merchandise	-	-	1,940	1,940
Office Expense	-	6,130	3,716	9,846
Memberships and Dues	-	1,223	-	1,223
Travel	1,610	-	-	1,610
Interest and Bank Fees	519	6,972	-	7,491
Other Expense	190	1,381	343	1,914
Depreciation	40,036	-	-	40,036
	<u>\$ 308,522</u>	<u>\$ 89,791</u>	<u>\$ 74,462</u>	<u>\$ 472,775</u>

The accompanying notes are an integral part of these financial statements.

BAREFOOT REPUBLIC, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2012

Cash flows from operating activities:	
Increase in net assets	\$ 167,599
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	40,036
Non-cash donations in-kind	(29,241)
(Increase) decrease in operating assets:	
Accounts receivable	(6,510)
Prepaid expenses	(1,658)
Increase (decrease) in operating liabilities:	
Accounts payable	2,055
Accrued expenses	2,854
Deferred revenue	7,400
Total adjustments	14,936
Net cash provided by operating activities	182,535
Cash flows from investing activities:	
Purchase of property and equipment	(92,280)
Net cash used by investing activities	(92,280)
Cash flows from financing activities:	
Net payments on line of credit	(12,552)
Principle payments on notes payable	(3,929)
Net cash used by financing activities	(16,481)
Net increase in total cash	73,774
Total cash, beginning of year	2,273
Total cash, end of year	\$ 76,047
Other cash flow disclosures:	
Cash paid during the year for interest	\$ 519
Non-cash investing and financing activities:	
Property and equipment donations in-kind	\$ 29,241
Debt financed acquisition of property	\$ 36,800

The accompanying notes are an integral part of these financial statements.

BAREFOOT REPUBLIC, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Barefoot Republic, Inc. (the "Organization") was founded in 2000 as a Kentucky not-for-profit corporation. The Organization's mission is to facilitate Christ-centered relationships between individuals of diverse racial, cultural and socioeconomic backgrounds, through an equally diverse platform of artistic, athletic and team building programs. Participants in these programs are largely concentrated in the southern Kentucky and middle Tennessee areas.

The Organization operates summer and day camps at a facility located on 55 acres on Barren River Lake at 8824 Brownsford Road, Fountain Run, Kentucky. This facility includes two treehouse villages, a multipurpose center building with a commercial kitchen, an amphitheater, athletic fields and skatepark. There are currently six overnight camp sessions and two day camp sessions. The Organization also rents the facility as a retreat center. The Organization receives its support primarily from public contributions, camp tuition and rental fees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash

Cash consists principally of checking and savings account balances with financial institutions. Restricted cash consists of funds received with donor imposed restrictions and are limited in use to designated capital improvement projects.

Accounts Receivable

Accounts receivable are stated at unpaid balances. The Organization expects to fully collect these items, therefore no allowance for uncollectible accounts has been recorded in the financial statements.

Property, Equipment and Depreciation

Land, building, equipment and furniture purchases in excess of \$500 are capitalized and stated at acquisition cost or at estimated fair value at the time of the gift, if donated. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Depreciation of property and equipment, other than land, is calculated by the straight-line method over estimated useful lives ranging from three to ten years for equipment and furniture and five to forty years for building and improvements.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

BAREFOOT REPUBLIC, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (continued)

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor 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 in satisfaction of program restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

Deferred Revenue

Deferred revenue consists of advance payments received for a fundraiser that took place after year end.

Donated Goods and Services

Donated property and materials are recorded as contributions, or capitalized as property and equipment, in the period received at their estimated fair value, if there is an objective and measurable basis for determining such value. Donated services are recognized if they create or enhance nonfinancial assets or the donated service requires specialized skills, was performed by a donor who possess such skills, and would have been purchased by the Organization, if not donated. Such services are recognized at fair value as support and expense in the period the services were performed.

A number of unpaid volunteers have made significant contributions of their time to assist the Organization in implementing various programs. The value of contributed time is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.

Income Taxes

The Organization is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Accounting principles generally accepted in the United States of America require the Organization's management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. The Organization's management has analyzed the tax positions taken by the Organization and has concluded that as of September 30, 2012 no uncertain positions are taken or are expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions for the periods of 2009 to the present; however, there are currently no audits for any tax periods in progress.

BAREFOOT REPUBLIC, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program Services – includes the direct cost of operating the Organization's summer and day camps as well as retreat center rentals.

Management and General – includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program. Applicable costs include those associated with providing coordination and articulation of the Organization's program strategy, business management, general record keeping, budgeting, and related purposes.

Fundraising – includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reported period. Actual results could differ from those estimates.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 179,917
Buildings and improvements	1,111,688
Vehicles	22,991
Animals	3,000
Furniture and equipment	105,727
	<hr/> 1,423,323
Less accumulated depreciation	<hr/> (188,073)
	<hr/> <hr/> \$ 1,235,250

BAREFOOT REPUBLIC, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2012

NOTE 4 - NOTES PAYABLE

A summary of notes payable as of September 30, 2012, is as follows:

5.5% note payable to Edmonton State Bank, payable \$702.92 per month, principal and interest. The loan is collateralized by real property located at 8701 Brownsford Road, Scottsville, Kentucky.	\$ 36,269
Non-interest bearing, unsecured note payable to an individual, due on demand.	25,000
Non-interest bearing, unsecured note payable to an individual, due on demand.	15,000
	<u>76,269</u>
Less current portion	<u>(46,605)</u>
Total Notes Payable	<u><u>\$ 29,664</u></u>

Maturities of notes payable for the next five years are as follows:

<u>Years ending September 30:</u>	
2013	\$ 46,605
2014	6,979
2015	7,372
2016	7,788
2017	<u>7,525</u>
	<u><u>\$ 76,269</u></u>

NOTE 5 - RESTRICTIONS ON NET ASSETS

Temporary restricted net assets consist of donated funds designated by donors for various capital improvement projects.

There were no permanently restricted net assets as of September 30, 2012.

NOTE 6 - FINANCIAL AID AND DISCOUNTS

The Organization provides financial aid in the form of scholarships, tuition reduction and discounts to campers. The amount of financial aid for each camper is determined by the Executive Director and is based on the need described in a scholarship request letter submitted with the camper's application. Various tuition discounts are also given to returning campers, early registrants and families sending multiple children. Tuition revenue on the statement of activities is reported net of financial aid in the amount of \$115,270 for the year ended September 30, 2012.

BAREFOOT REPUBLIC, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2012

NOTE 7 - COMMITMENTS AND CONTINGENCIES

In 2007, the Organization merged with Masterpiece Ministries, Inc. ("Masterpiece"), a Tennessee not-for-profit corporation, under the name Spectrum Ministries, Inc. and subsequently separated from this corporation in 2011. In a resolution made at the time of the separation, the Organization committed to provide ongoing support for Masterpiece in the form of annual usage rights of the Organization's facilities and \$10,000 per year upon receipt of proper grant requests, provided that Masterpiece establish 501(c)(3) status. As of September 30, 2012, the Organization had yet to be notified that Masterpiece had established 501(c)(3) status and had not incurred any expenses related to this commitment.

NOTE 8 - RELATED PARTIES

The Organization leased office space on a month-to-month basis from the spouse of the Executive Director. Office rental expense for the year ended September 30, 2012 amounted to \$7,200.

The Organization also leased a building and other camp facilities on a month-to-month basis from a company owned in part by the Executive Director. Rent expense for the year ended September 30, 2012 amounted \$30,000. Although no amounts have been reflected in the financial statements, management estimates the fair rental value of the land to be approximately \$42,000 for the year ended September 30, 2012. The Organization intends to enter into a capitalized lease/lease purchase agreement for this property during the fiscal year ending September 30, 2013.

The Organization leases the land on which it facilities are located from the Executive Director and his family. The lease is renewable annually at the rate of \$1 per year.

The Organization owes a total of \$40,000 to the Executive Director and another family member. The notes are non-interest bearing and are payable on demand.

NOTE 9 - SUBSEQUENT EVENTS

On January 1, 2013, the Organization entered into a one year rental agreement for the property at 1226 Lakeview Drive, Suite G, Franklin, Tennessee which it has rented on a month-to-month basis since April 1, 2010 and uses for various administrative and fundraising activities. The rental agreement expires on December 31, 2013 and continues on a month-to-month basis thereafter.

Minimum lease rental commitments under the leasing agreement for the years ending September 30 are as follows:

2013	\$ 6,023
2014	<u>2,008</u>
	<u>\$ 8,031</u>

BAREFOOT REPUBLIC, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2012

NOTE 9 - SUBSEQUENT EVENTS (CONTINUED)

On March 26, 2013, the Organization established a \$150,000 line of credit with Fifth Third Bank. The terms are monthly payments of interest only for 11 months with outstanding principal and interest due in March, 2014. The interest rate is 1% greater than the Prime Rate established periodically by the Bank. The Prime Rate is currently 3.25%. The agreement is co-signed by a company owned by the Executive Director and his family and is collateralized by the land which the Organization leases from the Executive Director and his family.

The Organization's management has evaluated subsequent events through May 8, 2013, the date which the financial statements were available to be issued.