

**ROCKETOWN OF MIDDLE TENNESSEE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2016 AND 2015**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rockettown of Middle Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Rockettown of Middle Tennessee (a Tennessee not-for-profit corporation, the "Organization") which comprise the statements of financial position as of June 30, 2016 and 2015 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements (collectively, 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.

Auditors' Responsibility

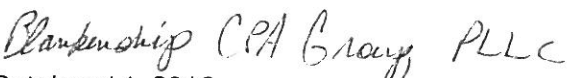
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 auditors' 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 Organization'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 Organization'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 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 Rockettown of Middle Tennessee as of June 30, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.


October 14, 2016

**ROCKETOWN OF MIDDLE TENNESSEE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015**

| ASSETS | | |
|---------------------------------------|---------------------|---------------------|
| | 2016 | 2015 |
| Current Assets: | | |
| Cash | \$ 387,800 | \$ 261,776 |
| Accounts receivable | 11,594 | 6,618 |
| Contributions receivable | 100 | 26,075 |
| Interest in net assets | 4,736 | 5,147 |
| Inventories | 57,093 | 41,211 |
| Deposits | 662 | 662 |
| Total current assets | 461,985 | 341,489 |
| Property and equipment, net | 6,824,300 | 6,967,421 |
| Endowment fund | 11,756 | 10,974 |
| Total assets | <u>\$ 7,298,041</u> | <u>\$ 7,319,884</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities: | | |
| Accounts payable | \$ 28,281 | \$ 39,352 |
| Accrued expenses | 46,566 | 35,930 |
| Deferred revenue | 60,159 | 64,438 |
| Current portion of long term debt | 26,471 | 25,393 |
| Total current liabilities | 161,477 | 165,113 |
| Long term debt: | | |
| Notes payable, net of current portion | 676,731 | 702,684 |
| Total liabilities | <u>838,208</u> | <u>867,797</u> |
| Net assets: | | |
| Unrestricted: | | |
| Designated for property and equipment | 6,824,300 | 6,967,421 |
| Undesignated | (470,531) | (562,956) |
| Total unrestricted | 6,353,769 | 6,404,465 |
| Temporarily restricted | 96,064 | 37,622 |
| Permanently restricted | 10,000 | 10,000 |
| Total net assets | <u>6,459,833</u> | <u>6,452,087</u> |
| Total liabilities and net assets | <u>\$ 7,298,041</u> | <u>\$ 7,319,884</u> |

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

ROCKETOWN OF MIDDLE TENNESSEE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|--------------|
| Operating revenues: | | | | |
| Membership dues, cover charges, session fees and lessons | \$ 240,948 | \$ - | \$ - | \$ 240,948 |
| Product revenue | 310,486 | - | - | 310,486 |
| Facility rentals | 406,825 | - | - | 406,825 |
| Investment income | - | 90 | - | 90 |
| Other | 7,439 | - | - | 7,439 |
| Total operating revenues | 965,698 | 90 | - | 965,788 |
| Public support and other revenues: | | | | |
| Contributions | 281,769 | - | - | 281,769 |
| Foundation contributions and grants | 264,161 | 95,000 | - | 359,161 |
| Special events | 401,325 | - | - | 401,325 |
| Sponsorships | 10,000 | - | - | 10,000 |
| Net assets released in satisfaction of program restrictions | 36,648 | (36,648) | - | - |
| Total public support and other revenues | 993,903 | 58,352 | - | 1,052,255 |
| Total revenues | 1,959,601 | 58,442 | - | 2,018,043 |
| Functional expenses: | | | | |
| Program services | 1,390,032 | - | - | 1,390,032 |
| Supporting services: | | | | |
| Management and general | 394,878 | - | - | 394,878 |
| Fundraising | 225,387 | - | - | 225,387 |
| Total functional expenses | 2,010,297 | - | - | 2,010,297 |
| Net increase in net assets | (50,696) | 58,442 | - | 7,746 |
| Net assets, beginning of year | 6,404,465 | 37,622 | 10,000 | 6,452,087 |
| Net assets, end of year | \$ 6,353,769 | \$ 96,064 | \$ 10,000 | \$ 6,459,833 |

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

ROCKETOWN OF MIDDLE TENNESSEE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|--------------|
| Operating revenues: | | | | |
| Membership dues, cover charges, session fees and lessons | \$ 231,533 | \$ - | \$ - | \$ 231,533 |
| Product revenue | 319,714 | - | - | 319,714 |
| Facility rentals | 357,629 | - | - | 357,629 |
| Investment income | - | 974 | - | 974 |
| Other | 59,792 | - | - | 59,792 |
| Total operating revenues | 968,668 | 974 | - | 969,642 |
| Public support and other revenues: | | | | |
| Contributions | 278,171 | 36,648 | - | 314,819 |
| Foundation contributions and grants | 278,798 | - | - | 278,798 |
| Special events | 362,215 | - | - | 362,215 |
| Net assets released in satisfaction of program restrictions | 2,364 | (2,364) | - | - |
| Total public support and other revenues | 921,548 | 34,284 | - | 955,832 |
| Total revenues | 1,890,216 | 35,258 | - | 1,925,474 |
| Functional expenses: | | | | |
| Program services | 1,548,395 | - | - | 1,548,395 |
| Supporting services: | | | | |
| Management and general | 228,885 | - | - | 228,885 |
| Fundraising | 238,330 | - | - | 238,330 |
| Total functional expenses | 2,015,610 | - | - | 2,015,610 |
| Net decrease in net assets | (125,394) | 35,258 | - | (90,136) |
| Net assets, beginning of year | 6,529,859 | 2,364 | 10,000 | 6,542,223 |
| Net assets, end of year | \$ 6,404,465 | \$ 37,622 | \$ 10,000 | \$ 6,452,087 |

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

**ROCKETOWN OF MIDDLE TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016**

| | Program Services | Management and General | Fundraising | Total |
|--|-----------------------------|-----------------------------------|--------------------|---------------------|
| Salaries and wages | \$ 567,103 | \$ 168,367 | \$ 111,116 | \$ 846,586 |
| Payroll taxes | 41,909 | 11,254 | 9,827 | 62,990 |
| Employee benefits | 46,227 | 15,182 | 6,732 | 68,141 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total payroll and related expenses | 655,239 | 194,803 | 127,675 | 977,717 |
| Direct costs of operating revenues: | | | | |
| Skatepark merchandise | 124,878 | - | - | 124,878 |
| Café merchandise | 39,334 | - | - | 39,334 |
| Bank fees | - | 15,126 | 3,811 | 18,937 |
| Dues and subscriptions | 1,774 | 6,962 | 3,562 | 12,298 |
| Food and entertainment | 23,182 | 4,224 | 3,979 | 31,385 |
| Gifts | 1,548 | 2,282 | 599 | 4,429 |
| Giveaways/incentives | 1,497 | - | - | 1,497 |
| Insurance | 62,966 | - | 6,702 | 69,668 |
| Interest | 30,971 | - | - | 30,971 |
| Legal and professional | 38 | 16,943 | - | 16,981 |
| Marketing and advertising | 7,309 | - | 5,645 | 12,954 |
| Minor equipment | 6,851 | 1,681 | - | 8,532 |
| Miscellaneous | 4,423 | 2,813 | 100 | 7,336 |
| Office supplies | 596 | 2,365 | 1,327 | 4,288 |
| Postage and freight | 6,728 | 913 | 1,975 | 9,616 |
| Purchased services - other | 91,357 | 86,992 | 11,832 | 190,181 |
| Purchased services - personnel | 3,352 | - | - | 3,352 |
| Repairs and maintenance | 31,219 | 16,123 | 146 | 47,488 |
| Special events | 2,338 | - | 45,002 | 47,340 |
| Supplies | 35,317 | 4,224 | 1,343 | 40,884 |
| Taxes and licenses | 29,446 | 6,977 | - | 36,423 |
| Telephone | 3,335 | 18,676 | 915 | 22,926 |
| Travel | 2,407 | 4,827 | 3,914 | 11,148 |
| Tuition and training | 1,550 | 2,759 | 672 | 4,981 |
| Utilities | 80,062 | - | - | 80,062 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total functional expenses before depreciation | 1,247,717 | 388,690 | 219,199 | 1,855,606 |
| Depreciation of property and equipment | 142,315 | 6,188 | 6,188 | 154,691 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total functional expenses | <u>\$ 1,390,032</u> | <u>\$ 394,878</u> | <u>\$ 225,387</u> | <u>\$ 2,010,297</u> |

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

**ROCKETOWN OF MIDDLE TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015**

| | Program Services | Management and General | Fundraising | Total |
|--|---------------------|---------------------------|-------------------|---------------------|
| Salaries and wages | \$ 622,605 | \$ 140,652 | \$ 121,591 | \$ 884,848 |
| Payroll taxes | 47,663 | 10,043 | 8,513 | 66,219 |
| Employee benefits | <u>42,165</u> | <u>12,774</u> | <u>5,084</u> | <u>60,023</u> |
| Total payroll and related expenses | 712,433 | 163,469 | 135,188 | 1,011,090 |
| Direct costs of operating revenues: | | | | |
| Skatepark merchandise | 129,127 | - | - | 129,127 |
| Café merchandise | 51,745 | - | - | 51,745 |
| Entertainment | 808 | - | - | 808 |
| Bank fees | 9,465 | 3,803 | 2,919 | 16,187 |
| Design, photography and printing | 681 | - | 1,193 | 1,874 |
| Dues and subscriptions | 2,026 | 2,394 | 3,072 | 7,492 |
| Food and entertainment | 14,023 | 1,889 | 2,960 | 18,872 |
| Gifts | 74 | 1,908 | 534 | 2,516 |
| Giveaways/incentives | 15,728 | 108 | 144 | 15,980 |
| Insurance | 56,767 | - | 6,504 | 63,271 |
| Interest | 33,033 | - | - | 33,033 |
| Legal and professional | 12,500 | 595 | - | 13,095 |
| Marketing and advertising | 8,764 | 405 | 731 | 9,900 |
| Minor equipment | 3,587 | 1,411 | - | 4,998 |
| Miscellaneous | 3,138 | - | - | 3,138 |
| Office supplies | 953 | 1,051 | 111 | 2,115 |
| Outreach | 392 | - | - | 392 |
| Postage and freight | 7,150 | 740 | 2,071 | 9,961 |
| Purchased services - other | 75,701 | 29,932 | 14,404 | 120,037 |
| Purchased services - personnel | 7,760 | - | 212 | 7,972 |
| Repairs and maintenance | 28,116 | 9,469 | - | 37,585 |
| Special events | 756 | 28 | 48,586 | 49,370 |
| Supplies | 50,034 | 1,737 | 5,622 | 57,393 |
| Taxes and licenses | 26,124 | - | - | 26,124 |
| Telephone | 30,323 | - | 330 | 30,653 |
| Travel | 8,884 | 1,497 | 6,002 | 16,383 |
| Tuition and training | - | 822 | 120 | 942 |
| Utilities | <u>86,996</u> | <u>-</u> | <u>-</u> | <u>86,996</u> |
| Total functional expenses before depreciation | 1,377,088 | 221,258 | 230,703 | 1,829,049 |
| Depreciation of property and equipment | <u>171,307</u> | <u>7,627</u> | <u>7,627</u> | <u>186,561</u> |
| Total functional expenses | <u>\$ 1,548,395</u> | <u>\$ 228,885</u> | <u>\$ 238,330</u> | <u>\$ 2,015,610</u> |

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

**ROCKETOWN OF MIDDLE TENNESSEE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

| | 2016 | 2015 |
|--|------------|-------------|
| Cash flows from operating activities: | | |
| Increase (decrease) in net assets | \$ 7,746 | \$ (90,136) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities: | | |
| Depreciation | 154,691 | 186,561 |
| Unrealized gain on endowment fund | (90) | (170) |
| (Increase) decrease in: | | |
| Accounts receivable | (4,976) | 49,184 |
| Contributions receivable | 25,975 | (18,725) |
| Interest in net assets | 411 | (210) |
| Inventories | (15,882) | (1,107) |
| Increase (decrease) in: | | |
| Accounts payable | (11,071) | (5,067) |
| Accrued expenses | 10,636 | 8,032 |
| Deferred revenue | (4,279) | (6,198) |
| Total adjustments | 155,415 | 212,300 |
| Net cash provided by operating activities | 163,161 | 122,164 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (11,570) | (18,748) |
| Interest and dividends reinvested in endowment fund | (692) | (804) |
| Net cash used by investing activities | (12,262) | (19,552) |
| Cash flows from financing activities: | | |
| Payments on long term debt | (24,875) | (27,467) |
| Net cash used by financing activities | (24,875) | (27,467) |
| Net increase in cash | 126,024 | 75,145 |
| Cash, beginning of year | 261,776 | 186,631 |
| Cash, end of year | \$ 387,800 | \$ 261,776 |
| Other cash flow disclosures: | | |
| Cash paid during the year for interest | \$ 30,971 | \$ 33,033 |

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

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Rocketown of Middle Tennessee (the "Organization") was founded in 1994 as a Tennessee not-for-profit corporation. The Organization's mission is to offer hope to the next generation through Christ's love. Rocketown's vision is to be the place of peace, purpose, and possibilities for youth.

The Organization offers creative, spiritual, educational, social, and job preparedness programs and support. We also operate a skate park, concert, and event venue at 601 Fourth Avenue South, Nashville, TN and 526 Fifth Avenue South. This facility includes a 9,000 square foot indoor skateboarding park; a small venue, a large state-of-the-art music venue and performance space; the coffee bar, a full service coffee shop; a dance studio that can be used as a multi-purpose room; a recording studio; and four classroom spaces for after-school and summer camp programming. During 2016, the Organization had over 37,579 youth visits and another 73,596 community visits representing every social demographic of the greater Nashville area and surrounding counties.

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.

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.

Cash

Cash consists principally of checking and savings account balances with financial institutions. Cash excludes cash restricted for the endowment fund.

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.

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Equipment and Depreciation

Land, building, equipment and furniture purchases in excess of \$1,000 are capitalized and stated at acquisition cost or at estimated fair value at the time of the gift, if donated. 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.

Inventories

Inventories consist principally of coffee bar supplies and skate park store products and are reported at lower of cost (first-in, first-out method) or market.

Contributions

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

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 statements 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.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows (unless immaterial). Conditional promises to give are not included as support until such time as the conditions are substantially met.

The Organization expects to fully collect these items; therefore no allowance for doubtful accounts has been recorded in the financial statements.

Promises to give in the future are recognized as temporarily restricted net assets and revenues in the period promised if the promise is unconditional or the possibility that a condition will not be met is remote.

Donated Goods and Services

Donated facilities and materials are recorded as contributions 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.

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Goods and Services (Continued)

A number of unpaid volunteers have made significant contributions of their time to assist the Organization in implementing various programs and exhibits. 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. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. Income taxes for such unrelated business income totaled \$6,873 and \$71 in 2016 and 2015, respectively.

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 not 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 June 30, 2016 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; however, there are currently no audits for any tax periods in progress. The Organization is no longer subject to routine audits by taxing jurisdictions for any tax periods beginning before 2013.

Advertising

All advertising costs are expensed when incurred. There were no direct response advertising costs incurred in 2016 and 2015.

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 indoor skate park, music venue, and coffee bar. Additionally, program services include numerous enrichment programs offered to teenagers visiting the facility, including skateboarding lessons, songwriting, video editing, graffiti art, and dance.

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.

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

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.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are unconditional promises to give and are summarized as follows:

| | 2016 | 2015 |
|----------------------------------|---------------|------------------|
| Receivable in less than one year | \$ 100 | \$ 26,075 |
| Receivable in one to five years | - | - |
| | <u>100</u> | <u>26,075</u> |
| Allowance for doubtful accounts | - | - |
| | <u>\$ 100</u> | <u>\$ 26,075</u> |

NOTE 4 - INTEREST IN NET ASSETS

Amounts reported in the statements of financial position as interest in net assets represent the cumulative transfers by the Organization to the Firm Foundation of Middle Tennessee (the "Foundation") which is a component fund of the National Christian Charitable Foundation, Inc., as well as earnings thereon. These amounts totaled \$4,736 and \$5,147 at June 30, 2016 and 2015, respectively. The Foundation holds and invests the funds on behalf of the Organization. The Foundation has variance power over the funds if the Organization fails to comply with the requirements for distribution. The funds are distributable upon request by the Organization and approval of the Foundation. Distributions will be approved if the Organization continues to operate as a 501(c)(3) and a religious Organization. Management does not expect the Organization to fail to comply with the requirements for distribution. Several members of the Organization's board of directors are also members of or related to members of the board of directors for the Foundation.

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 5 - INVENTORIES

Inventories consist of the following as of June 30:

| | 2016 | 2015 |
|----------------------------|------------------|------------------|
| Skatepark shop merchandise | \$ 42,080 | \$ 35,218 |
| Coffee bar merchandise | <u>15,013</u> | <u>5,993</u> |
| | <u>\$ 57,093</u> | <u>\$ 41,211</u> |

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

| | 2016 | 2015 |
|-------------------------------|---------------------|---------------------|
| Land | \$ 2,367,032 | \$ 2,367,032 |
| Building and improvements | 5,161,272 | 5,155,611 |
| Machinery and equipment | 649,122 | 643,213 |
| Furniture and fixtures | <u>37,163</u> | <u>37,163</u> |
| | 8,214,589 | 8,203,019 |
| Less accumulated depreciation | <u>(1,390,289)</u> | <u>(1,235,598)</u> |
| | <u>\$ 6,824,300</u> | <u>\$ 6,967,421</u> |

NOTE 7 - ENDOWMENT FUND

The Organization has received a donation to establish a permanent endowment fund to provide funds to help support the Organization's various youth programs. Terms of the donation require the funds to be segregated from other Organization funds. Gifts made to donor-restricted endowment is reported as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization according to the terms of the donation.

Endowment net asset composition as of June 30, 2016 is as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Net Endowment Assets |
|---------------------------------|--------------|---------------------------|---------------------------|----------------------------------|
| Donor-restricted endowment fund | <u>\$ -</u> | <u>\$ 1,756</u> | <u>\$ 10,000</u> | <u>\$ 11,756</u> |

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 7 - ENDOWMENT FUND (CONTINUED)

Changes in endowment net assets as of June 30, 2016 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Net Endowment Assets |
|--|--------------|---------------------------|---------------------------|----------------------------------|
| Endowment net assets, beginning of year | \$ - | \$ 974 | \$ 10,000 | \$ 10,974 |
| Interest and dividends | - | 692 | - | 692 |
| Unrealized gains | - | 90 | - | 90 |
| Endowment net assets, end of year | <u>\$ -</u> | <u>\$ 1,756</u> | <u>\$ 10,000</u> | <u>\$ 11,756</u> |

Endowment net asset composition as of June 30, 2015 is as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Net Endowment Assets |
|---------------------------------|--------------|---------------------------|---------------------------|----------------------------------|
| Donor-restricted endowment fund | <u>\$ -</u> | <u>\$ 974</u> | <u>\$ 10,000</u> | <u>\$ 10,974</u> |

Changes in endowment net assets as of June 30, 2015 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Net Endowment Assets |
|--|--------------|---------------------------|---------------------------|----------------------------------|
| Endowment net assets, beginning of year | \$ - | \$ - | \$ 10,000 | \$ 10,000 |
| Interest and dividends | - | 804 | - | 804 |
| Unrealized gains | - | 170 | - | 170 |
| Endowment net assets, end of year | <u>\$ -</u> | <u>\$ 974</u> | <u>\$ 10,000</u> | <u>\$ 10,974</u> |

NOTE 8 - LINE OF CREDIT

The Organization has a \$250,000 revolving line of credit with a financial institution to help finance its short-term capital needs. This note is payable upon demand. Interest is payable monthly on outstanding balances at an interest rate of no less than 3.25%. At June 30, 2016, the line's effective rate of interest was 3.25%. No line of credit borrowings occurred during the years ended June 30, 2016 and 2015, and none have occurred through the date of the independent auditors' report.

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 9 - LONG TERM DEBT

Long term debt consists of the following for the Organization at June 30:

| | 2016 | 2015 |
|---|-------------------|-------------------|
| In May of 2014 the Organization borrowed \$755,544 from a financial institution. The installment note is due in monthly principal and interest payments of \$4,654 with the final payment becoming due June 2021. The note has an interest rate of 4.25%, and is collateralized by the Organization's three properties. | \$ 703,202 | \$ 728,077 |
| Less current portion | (26,471) | (25,393) |
| | <u>\$ 676,731</u> | <u>\$ 702,684</u> |

The principal maturities of long-term debt at June 30, 2016 are as follows:

| <u>Fiscal Year Ending June 30</u> | |
|-----------------------------------|-------------------|
| 2017 | \$ 26,471 |
| 2018 | 27,619 |
| 2019 | 28,816 |
| 2020 | 30,064 |
| 2021 | 590,232 |
| | <u>\$ 703,202</u> |

NOTE 10 - RESTRICTIONS ON NET ASSETS

The temporary restrictions on net assets are as follows:

| | 2016 | 2015 |
|---------------------------------------|------------------|------------------|
| Time restricted donations | \$ 94,308 | \$ 36,648 |
| Investment income from endowment fund | 1,756 | 974 |
| | <u>\$ 96,064</u> | <u>\$ 37,622</u> |

As of June 30, 2016 and 2015, permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets can be used to support the Organization's general activities.

ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 11 - EMPLOYEE BENEFIT PLAN

The Organization sponsors a qualified defined contribution plan under Section 401(k) of the Internal Revenue Code in which substantially all employees of the Organization qualify after they have completed one year of service. The plan allows participants to contribute a percentage of their gross pay up to the amount allowable by the Internal Revenue Code. The Organization recognized \$20,209 and \$7,887 as expense under this plan during the years ended June 30, 2016 and 2015, respectively. These amounts were included in the statements of functional expenses as employee benefits.

NOTE 12 - LEASE COMMITMENTS

The Organization leases office equipment under four operating leases which expire at various points between 2017 and 2020. Lease expense for this equipment was \$9,984 and \$8,440 for the years ending June 30, 2016 and 2015, respectively.

The minimum lease payments required under the above operating leases as of June 30, 2016 are as follows:

Fiscal Year Ending June 30

| | |
|------|------------------|
| 2017 | \$ 10,071 |
| 2018 | 6,247 |
| 2019 | 1,630 |
| 2020 | <u>86</u> |
| | <u>\$ 18,034</u> |

NOTE 13 - CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash on deposit with several financial institutions. The Organization maintains balances which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to significant credit risk related to cash. Uninsured amounts at June 30, 2016 and 2015 were approximately \$132,000 and \$0, respectively.

The Organization was awarded 5 grants which made up approximately 84% of total foundation contributions and grants revenue for the year ended June 30, 2016. The Organization was awarded three grants which made up approximately 47% of total foundation contributions and grants revenue for the year ended June 30, 2015. One corporation made contributions which comprised approximately 18% of the Organization's total contributions for the year ended June 30, 2016. Three corporations made contributions which comprised approximately 43% of the Organization's total contributions for the year ended June 30, 2015.

ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 14 - QUESTIONED COSTS

Questioned costs are those amounts charged to a funded program that may not be in compliance with requirements set forth in contracts, statutes, and regulations governing allowability or eligibility. A questioned cost may not be reimbursed by the grantor agency or the grantor agency may require that the funds already expended be refunded to the agency. These amounts can be "questioned" by the agency for the specific grant to which they apply. The determination as to whether such costs will be allowed or disallowed under the grants will be made by the individual grantor agency at a later date. No liability was required at June 30, 2016 and 2015 for the repayment of questioned costs as no grantor agency has made a determination of the appropriateness of any questioned costs. Management deems the possibility of a refund request to be remote, as they believe that the Organization has accommodated their objective to the provisions of their grants.

NOTE 15 - SUBSEQUENT EVENTS

The Organization's management has evaluated subsequent events through October 14, 2016, the date which the financial statements were available to be issued.