

**ROCKETOWN OF MIDDLE TENNESSEE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2015 AND 2014**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rockettown of Middle Tennessee

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, 2015 and 2014 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the 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, 2015 and 2014 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Disclaimer of Opinion on Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Managements' Discussion and Analysis (MD&A), which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Blankenship CPA Group, PLLC
October 19, 2015

**ROCKETOWN OF MIDDLE TENNESSEE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014**

	ASSETS	
	2015	2014
Current Assets:		
Cash	\$ 261,776	\$ 186,631
Accounts receivable	6,618	55,802
Contributions receivable	26,075	7,350
Interest in net assets	5,147	4,937
Inventories	41,211	40,104
Deposits	662	662
Total current assets	341,489	295,486
Property and equipment, net	6,967,421	7,135,234
Endowment fund	10,974	10,000
Total assets	<u>\$ 7,319,884</u>	<u>\$ 7,440,720</u>

	LIABILITIES AND NET ASSETS	
Current Liabilities:		
Accounts payable	\$ 39,352	\$ 44,419
Accrued expenses	35,930	27,898
Deferred revenue	64,438	70,636
Current portion of long term debt	25,393	24,203
Total current liabilities	165,113	167,156
Long term debt:		
Notes payable, net of current portion	702,684	731,341
Total liabilities	<u>867,797</u>	<u>898,497</u>
Net assets:		
Unrestricted:		
Designated for property and equipment	6,967,421	7,135,234
Undesignated	(562,956)	(605,375)
Total unrestricted	6,404,465	6,529,859
Temporarily restricted	37,622	2,364
Permanently restricted	10,000	10,000
Total net assets	<u>6,452,087</u>	<u>6,542,223</u>
Total liabilities and net assets	<u>\$ 7,319,884</u>	<u>\$ 7,440,720</u>

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

**ROCKETOWN OF MIDDLE TENNESSEE
STATEMENT OF ACTIVITIES
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	<u>968,668</u>	<u>974</u>	<u>-</u>	<u>969,642</u>
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	<u>2,364</u>	<u>(2,364)</u>	<u>-</u>	<u>-</u>
Total public support and other revenues	<u>921,548</u>	<u>34,284</u>	<u>-</u>	<u>955,832</u>
Total revenues	<u>1,890,216</u>	<u>35,258</u>	<u>-</u>	<u>1,925,474</u>
Functional expenses:				
Program services	1,548,395	-	-	1,548,395
Supporting services:				
Management and general	228,885	-	-	228,885
Fundraising	<u>238,330</u>	<u>-</u>	<u>-</u>	<u>238,330</u>
Total functional expenses	<u>2,015,610</u>	<u>-</u>	<u>-</u>	<u>2,015,610</u>
Net (decrease) increase in net assets	(125,394)	35,258	-	(90,136)
Net assets, beginning of year	<u>6,529,859</u>	<u>2,364</u>	<u>10,000</u>	<u>6,542,223</u>
Net assets, end of year	<u>\$ 6,404,465</u>	<u>\$ 37,622</u>	<u>\$ 10,000</u>	<u>\$ 6,452,087</u>

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

**ROCKETOWN OF MIDDLE TENNESSEE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues:				
Membership dues, cover charges, session fees and lessons	\$ 226,224	\$ -	\$ -	\$ 226,224
Product revenue	334,648	-	-	334,648
Facility rentals	325,563	-	-	325,563
Other	1,770	-	-	1,770
Total operating revenues	<u>888,205</u>	<u>-</u>	<u>-</u>	<u>888,205</u>
Public support and other revenues:				
Contributions	271,636	-	5,000	276,636
Foundation contributions and grants	303,459	-	-	303,459
Special events	328,474	-	-	328,474
Net assets released in satisfaction of program restrictions	<u>31,359</u>	<u>(31,359)</u>	<u>-</u>	<u>-</u>
Total public support and other revenues	<u>934,928</u>	<u>(31,359)</u>	<u>5,000</u>	<u>908,569</u>
Total revenues	<u>1,823,133</u>	<u>(31,359)</u>	<u>5,000</u>	<u>1,796,774</u>
Functional expenses:				
Program services	1,467,789	-	-	1,467,789
Supporting services:				
Management and general	296,557	-	-	296,557
Fundraising	<u>235,427</u>	<u>-</u>	<u>-</u>	<u>235,427</u>
Total functional expenses	<u>1,999,773</u>	<u>-</u>	<u>-</u>	<u>1,999,773</u>
Net (decrease) increase in net assets	(176,640)	(31,359)	5,000	(202,999)
Net assets, beginning of year	<u>6,706,499</u>	<u>33,723</u>	<u>5,000</u>	<u>6,745,222</u>
Net assets, end of year	<u>\$ 6,529,859</u>	<u>\$ 2,364</u>	<u>\$ 10,000</u>	<u>\$ 6,542,223</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	42,165	12,774	5,084	60,023
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	86,996	-	-	86,996
Total functional expenses before depreciation	1,377,088	221,258	230,703	1,829,049
Depreciation of property and equipment	171,307	7,627	7,627	186,561
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
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014**

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 574,451	\$ 139,111	\$ 107,930	\$ 821,492
Payroll taxes	43,722	8,977	8,449	61,148
Employee benefits	<u>34,672</u>	<u>7,336</u>	<u>2,812</u>	<u>44,820</u>
Total payroll and related expenses	652,845	155,424	119,191	927,460
Direct costs of operating revenues:				
Skatepark merchandise	126,190	-	-	126,190
Café merchandise	65,041	-	-	65,041
Entertainment	1,066	-	-	1,066
Bank fees	22	10,193	483	10,698
Design, photography and printing	809	-	-	809
Dues and subscriptions	953	2,170	2,755	5,878
Food and entertainment	23,844	4,903	6,743	35,490
Gifts	619	3,328	857	4,804
Giveaways/incentives	9,634	258	182	10,074
Insurance	54,286	-	13,572	67,858
Legal and professional	-	13,755	-	13,755
Marketing and advertising	13,478	531	1,738	15,747
Minor equipment	4,142	219	-	4,361
Miscellaneous	6,453	13,492	362	20,307
Office supplies	44	2,445	46	2,535
Outreach	275	-	-	275
Postage and freight	6,872	326	1,613	8,811
Purchased services - other	127,646	39,012	2,088	168,746
Purchased services - personnel	31,617	196	300	32,113
Rent	27,035	-	-	27,035
Repairs and maintenance	22,998	8,797	1,817	33,612
Special events	787	-	22,920	23,707
Supplies	52,578	1,430	8,688	62,696
Taxes and licenses	19,545	17,142	322	37,009
Telephone	7,793	18,906	337	27,036
Travel	9,320	136	1,116	10,572
Tuition and training	2,607	3,894	475	6,976
Utilities	<u>67,725</u>	<u>-</u>	<u>16,931</u>	<u>84,656</u>
Total functional expenses before depreciation	1,336,224	296,557	202,536	1,835,317
Depreciation of property and equipment	<u>131,565</u>	<u>-</u>	<u>32,891</u>	<u>164,456</u>
Total functional expenses	<u>\$ 1,467,789</u>	<u>\$ 296,557</u>	<u>\$ 235,427</u>	<u>\$ 1,999,773</u>

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

**ROCKETOWN OF MIDDLE TENNESSEE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
Cash flows from operating activities:		
Decrease in net assets	\$ (90,136)	\$ (202,999)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Depreciation	186,561	164,456
Unrealized gain on endowment fund	(170)	-
(Increase) decrease in:		
Accounts receivable	49,184	(27,796)
Contributions receivable	(18,725)	1,800
Interest in net assets	(210)	-
Inventories	(1,107)	(3,451)
Increase (decrease) in:		
Accounts payable	(5,067)	17,671
Accrued expenses	8,032	(12,721)
Deferred revenue	(6,198)	23,392
Total adjustments	212,300	163,351
Net cash provided (used) by operating activities	122,164	(39,648)
Cash flows from investing activities:		
Purchase of property and equipment	(18,748)	(21,558)
Endowment funds invested	-	(5,000)
Interest and dividends reinvested in endowment fund	(804)	-
Net cash used by investing activities	(19,552)	(26,558)
Cash flows from financing activities:		
Payments on long term debt	(27,467)	-
Net cash used by financing activities	(27,467)	-
Net increase (decrease) in cash	75,145	(66,206)
Cash, beginning of year	186,631	252,837
Cash, end of year	\$ 261,776	\$ 186,631
Other cash flow disclosures:		
Cash paid during the year for interest	\$ 33,033	\$ -
Non-cash investing activities:		
Building acquired with debt	\$ -	\$ 755,544

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

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014**

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 2015, the Organization had over 99,000 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.

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.

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$71 and \$851 in 2015 and 2014, 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, 2015 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 2012.

Advertising

All advertising costs are expensed when incurred. There were no direct response advertising costs incurred in 2015 and 2014.

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.

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.

ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 3 - CONTRIBUTIONS RECEIVABLE

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

	2015	2014
Receivable in less than one year	\$ 26,075	\$ 7,350
Receivable in one to five years	-	-
	<u>26,075</u>	<u>7,350</u>
Allowance for doubtful accounts	-	-
	<u>\$ 26,075</u>	<u>\$ 7,350</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 \$5,147 and \$4,937 at June 30, 2015 and 2014, 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.

NOTE 5 - INVENTORIES

Inventories consist of the following as of June 30:

	2015	2014
Skatepark shop merchandise	\$ 35,218	\$ 33,188
Coffee bar merchandise	5,993	5,045
Other merchandise	-	1,871
	<u>\$ 41,211</u>	<u>\$ 40,104</u>

ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 6 - PROPERTY AND EQUIPMENT

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

	2015	2014
Land	\$ 2,367,032	\$ 2,367,032
Building and improvements	5,155,611	5,143,236
Machinery and equipment	643,213	643,213
Furniture and fixtures	37,163	30,790
	<u>8,203,019</u>	<u>8,184,271</u>
Less accumulated depreciation	<u>(1,235,598)</u>	<u>(1,049,037)</u>
	<u><u>\$ 6,967,421</u></u>	<u><u>\$ 7,135,234</u></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, 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
Contributions	-	-	-	-
Interest and dividends	-	804	-	804
Unrealized gains (losses)	-	170	-	170
Amounts appropriated for expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u><u>\$ -</u></u>	<u><u>\$ 974</u></u>	<u><u>\$ 10,000</u></u>	<u><u>\$ 10,974</u></u>

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 7 - ENDOWMENT FUND (CONTINUED)

Endowment net asset composition as of June 30, 2014 is as follows:

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

Changes in endowment net assets as of June 30, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets,				
beginning of year	\$ -	\$ -	\$ 5,000	\$ 5,000
Contributions	-	-	5,000	5,000
Interest and dividends	-	-	-	-
Unrealized gains (losses)	-	-	-	-
Amounts appropriated for expenditure	-	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 10,000</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, 2015, the line's effective rate of interest was 3.25%. No line of credit borrowings occurred during the years ended June 30, 2015 or 2014, and none have occurred through the date of the independent auditors' report.

NOTE 9 - LONG TERM DEBT

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

	2015	2014
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 \$4,564 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.	\$ 728,077	\$ 755,544
Less current portion	<u>(25,393)</u>	<u>(24,203)</u>
	<u>\$ 702,684</u>	<u>\$ 731,341</u>

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 9 - LONG TERM DEBT (CONTINUED)

The principal maturities of long-term debt at June 30, 2015 are as follows:

Fiscal Year Ending June 30

2016	\$ 25,393
2017	26,494
2018	27,642
2019	28,840
2020	30,090
Thereafter	<u>589,618</u>
	<u><u>\$ 728,077</u></u>

NOTE 10 - RESTRICTIONS ON NET ASSETS

The temporary restrictions on net assets are as follows:

	2015	2014
Time restricted donations	\$ 36,648	\$ -
Investment income from endowment fund	974	-
Donations restricted for capital improvements	<u>-</u>	<u>2,364</u>
	<u><u>\$ 37,622</u></u>	<u><u>\$ 2,364</u></u>

As of June 30, 2015 and 2014, 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.

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 \$7,887 and \$5,430 as expense under this plan during the years ended June 30, 2015 and 2014, respectively. These amounts were included in the statements of functional expenses as employee benefits.

NOTE 12 - LEASE COMMITMENTS

The Organization leased property at 522 and 526 Fifth Ave. South, Nashville, Tennessee which it uses for various program and administrative activities. The rental agreement had an original term of 5 years expiring on March 31, 2015 and included an option to extend the term for another 3 years. In May of 2014 the Organization obtained a loan and purchased this property (See Note 9). Rent expense under this lease amounted to \$0 and \$27,035 for the years ended June 30, 2015 and 2014, respectively.

ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 12 - LEASE COMMITMENTS (CONTINUED)

The Organization also leases office equipment under two operating leases which expires on March 31, 2018 for total annual lease payments of \$2,880. Lease expense for this equipment was \$6,237 and \$2,880 for the years ending June 30, 2015 and 2014, respectively.

The minimum lease payments required under the above operating leases as of June 30, 2015 are as follows:

2016	\$ 6,237
2017	6,237
2018	<u>2,720</u>
	<u>\$ 15,194</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. In management's opinion, the financial institutions have strong credit ratings and exposure to such concentrations is not considered significant.

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. The Organization was awarded five grants which made up approximately 71% of total foundation contributions and grants revenue for the year ended June 30, 2014. Three corporations made contributions which comprised approximately 43% of the Organization's total contributions for the year ended June 30, 2015. One individual made contributions which comprised approximately 18% of the Organization's total contributions for the year ended June 30, 2014.

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, 2015 and 2014 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 19, 2015, the date which the financial statements were available to be issued.

**OTHER INFORMATION
(UNAUDITED)**

**ROCKETOWN OF MIDDLE TENNESSEE
MANAGEMENTS' DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED JUNE 30, 2015 AND 2014**

Our Fiscal Strategy

Rocketown's 3 Year Strategic Goals include reducing financial risk. We are striving to expand grants and donor base, increase cash reserves, improve self-generating revenue and profits and improve operational efficiency.

Fiscal 2015 Strategic Accomplishments

Rocketown has a board-directed strategic plan that is looking for results in the following areas: more complete alignment of programs and outreach with our mission statement, increases in public support, and improved operational growth. We are pleased to report on these accomplishments:

1. During the course of Fiscal 2015, we were charged with aligning all activities to mission, which began with examining each area and its contribution to the overall mission. Through the course of the year, this alignment process involved monitoring and adjusting staff, and examining statistical activity data to determine successes and areas to improve. We also hired a consultant to provide assistance in utilizing a curriculum-based and outcome-based approach to afterschool programming.
2. In the area of excellence in programming, we were able to award a deserving student a college sponsorship, thanks to a new partnership with Sun Life Financial. This partnership also awarded Rocketown a \$50,000 new grant.
3. In the area of increasing public support, we overachieved prior year public support by \$22,000, largely due to the continued success of our fundraising event and the above-mentioned grant from Sun Life Financial.
4. In the area of operational growth, rentals of our facility exceeded prior year revenues by \$33,000. We also received a one-time bonus of \$50,000 from our ticketing vendor as a contract negotiation incentive. In other operational areas, we worked on improving our margins, despite little revenue fluctuations between years.
5. This year, we established an Operations Liquidity Balance Target of \$350,000 over a three-year period, with the objective of being able to better manage unplanned events and cash flow fluctuations. Results from Fiscal 2015 allowed Rocketown to begin a cash reserve for future needs in the amount of \$40,000.

**ROCKETOWN OF MIDDLE TENNESSEE
MANAGEMENTS' DISCUSSION AND ANALYSIS (UNAUDITED-CONTINUED)
YEARS ENDED JUNE 30, 2015 AND 2014**

As noted in the audited financial statements, change in net assets for the years ending June 30, 2015 and 2014 are as follows:

	F2015 Jul 2014 - Jun 2015	F2014 Jul 2013 - Jun 2014	Change %
<u>Revenues</u>			
Operational Revenues	\$ 969,642	\$ 888,205	9%
Public Support	955,832	908,569	5%
Total Revenues	\$ 1,925,474	\$ 1,796,774	7%
<u>Expenses</u>			
Program Services	\$ 1,377,088	\$ 1,336,224	3%
Supporting Services			
Management and General	221,258	296,557	-25%
Fundraising	230,703	202,536	14%
Asset Depreciation	186,561	164,456	13%
Total Expenses	\$ 2,015,610	\$ 1,999,773	1%
Net decrease	\$ (90,136)	\$ (202,999)	-56%
Net increase (decrease) - excluding depreciation	\$ 96,425	\$ (38,543)	-350%
Net increase (decrease) in cash	\$ 75,145	\$ (66,206)	-214%

There are several items to note in this year's financials as compared to prior year. The first is that with continued focus to steward our property wisely, we surpassed our rental expectation and prior year results by \$33,000. In Fiscal 2015, we had another year of surpassing our public support budget by \$47,000. We also controlled expenses to stay flat with prior year, allowing revenue increases to help increase our cash reserve balance.

Additionally, our organization's biggest asset is the property at 601 Fourth Avenue and 526 Fifth Avenue, where youth come to be ministered to in a safe environment. The properties' book value is \$7,424,583, resulting in annual depreciation expense on that asset of \$128,039 with 10% associated debt. Sixty-eight percent (68%) of all depreciation shown on the books is a result of owning this asset. The impact of this asset is a large non-cash expense often overshadowing operating revenues and public support. Therefore, our organization budgets and manages internal strategy to exclude depreciation expense and focus on increasing cash position.

What is not highlighted in the financial statements of the organization is the properties' fair market value. As Nashville has expanded to include the new convention center and developers continue to invest in our area, property values are on the rise. Current real estate professionals estimate our \$7.4 million dollar property to be worth between \$16 million and \$23 million in today's market. Although appreciation is not measured until a sale has occurred, it is worth noting that the appreciation of our asset is an investment in the future of Rocketown.