

**ROCKETOWN OF MIDDLE TENNESSEE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2008 AND 2007**

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BLANKENSHIP CPA GROUP, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rockettown of Middle Tennessee

We have audited the accompanying statements of financial position of Rockettown of Middle Tennessee (a Tennessee not-for-profit corporation, the "Organization") as of June 30, 2008 and 2007 and the related statements of activities, functional expenses and cash flows for the years 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 Rockettown of Middle Tennessee as of June 30, 2008 and 2007, 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.

Blankenship CPA Group, PLLC

September 17, 2008

**ROCKETOWN OF MIDDLE TENNESSEE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007**

ASSETS

	2008	2007
Cash and cash equivalents	\$ 57,694	\$ 21,616
Accounts receivable	7,822	3,522
Contributions receivable, net	203,473	66,803
Inventories	32,795	37,634
Prepaid expenses	662	1,158
Property and equipment, net	<u>3,476,085</u>	<u>3,601,861</u>
 Total assets	 <u><u>\$ 3,778,531</u></u>	 <u><u>\$ 3,732,594</u></u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 26,030	\$ 33,741
Accrued property taxes	17,445	86,660
Accrued expenses	37,315	27,897
Line of credit	<u>-</u>	<u>25,000</u>
 Total liabilities	 <u>80,790</u>	 <u>173,298</u>
 Commitments and contingencies		
Net assets:		
Unrestricted:		
Designated for property and equipment	3,476,085	3,591,861
Undesignated	<u>18,183</u>	<u>(99,368)</u>
 Total unrestricted	 3,494,268	 3,492,493
 Temporarily restricted	 <u>203,473</u>	 <u>66,803</u>
 Total net assets	 <u>3,697,741</u>	 <u>3,559,296</u>
 Total liabilities and net assets	 <u><u>\$ 3,778,531</u></u>	 <u><u>\$ 3,732,594</u></u>

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

**ROCKETOWN OF MIDDLE TENNESSEE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

	Unrestricted	Temporarily Restricted	Total
Operating revenues:			
Membership dues, cover charges, session fees, lessons	\$ 276,800	\$ -	\$ 276,800
Product revenue	354,198	-	354,198
Facility rentals	139,557	-	139,557
Property tax forgiveness	69,215	-	69,215
Other	23,111	-	23,111
	<hr/>	<hr/>	<hr/>
Total operating revenues	862,881	-	862,881
	<hr/>	<hr/>	<hr/>
Public support and other revenues:			
Contributions	240,818	23,828	264,646
Foundation contributions and grants	96,039	139,445	235,484
Special events	129,680	-	129,680
Sponsorships	20,250	30,000	50,250
Net assets released in satisfaction of program restrictions	56,603	(56,603)	-
	<hr/>	<hr/>	<hr/>
Total public support and other revenues	543,390	136,670	680,060
	<hr/>	<hr/>	<hr/>
Total revenues	1,406,271	136,670	1,542,941
	<hr/>	<hr/>	<hr/>
Expenses:			
Program services	1,147,190	-	1,147,190
Supporting services:			
Management and general	120,870	-	120,870
Fundraising	136,436	-	136,436
	<hr/>	<hr/>	<hr/>
Total expenses	1,404,496	-	1,404,496
	<hr/>	<hr/>	<hr/>
Changes in net assets	1,775	136,670	138,445
Net assets, beginning of year	3,492,493	66,803	3,559,296
	<hr/>	<hr/>	<hr/>
Net assets, end of year	<u>\$ 3,494,268</u>	<u>\$ 203,473</u>	<u>\$ 3,697,741</u>

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

ROCKETOWN OF MIDDLE TENNESSEE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Unrestricted	Temporarily Restricted	Total
Operating revenues:			
Membership dues, cover charges, session fees, lessons	\$ 254,142	\$ -	\$ 254,142
Product revenue	282,455	-	282,455
Facility rentals	144,088	-	144,088
Other	18,037	-	18,037
	<u>698,722</u>	<u>-</u>	<u>698,722</u>
Total operating revenues			
Public support and other revenues:			
Contributions	241,923	41,418	283,341
Foundation contributions and grants	242,209	-	242,209
Special events	95,965	-	95,965
Net assets released in satisfaction of program restrictions	90,808	(90,808)	-
	<u>670,905</u>	<u>(49,390)</u>	<u>621,515</u>
Total public support and other revenues			
Total revenues	<u>1,369,627</u>	<u>(49,390)</u>	<u>1,320,237</u>
Expenses:			
Program services	1,109,815	-	1,109,815
Supporting services:			
Management and general	148,882	-	148,882
Fundraising	119,884	-	119,884
	<u>1,378,581</u>	<u>-</u>	<u>1,378,581</u>
Total expenses			
Changes in net assets	(8,954)	(49,390)	(58,344)
Net assets, beginning of year	<u>3,501,447</u>	<u>116,193</u>	<u>3,617,640</u>
Net assets, end of year	<u>\$ 3,492,493</u>	<u>\$ 66,803</u>	<u>\$ 3,559,296</u>

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

ROCKETOWN OF MIDDLE TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2008

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and wages	\$ 346,348	\$ 23,767	\$ 71,221	\$ 441,336
Payroll taxes	26,488	5,650	4,071	36,209
Employee benefits	20,599	3,418	7,191	31,208
Total payroll and related expenses	393,435	32,835	82,483	508,753
Direct costs of operating revenues:				
Skatepark merchandise	166,896	-	-	166,896
Café merchandise	55,120	-	-	55,120
Entertainment	6,224	-	-	6,224
Automobile	2,995	15	793	3,803
Bank fees	-	6,202	-	6,202
Bad debt expense	-	5,772	-	5,772
Board expense	-	(50)	(71)	(121)
Cash (over) and short	-	61	-	61
Computer software/hardware	1,838	1,024	397	3,259
Design, photography and printing	2,454	2,018	2,536	7,008
Dues and subscriptions	695	1,175	643	2,513
Food and entertainment	13,716	2,484	940	17,140
Gifts	1,828	1,442	712	3,982
Giveaways/incentives	2,525	-	-	2,525
Insurance	48,501	1,751	-	50,252
Interest	-	2,725	-	2,725
Janitorial	4,661	-	-	4,661
Legal and professional	-	13,870	95	13,965
Marketing and advertising	14,081	282	3,275	17,638
Miscellaneous	8,125	1,623	28	9,776
Office supplies	385	4,038	689	5,112
Outreach	1,078	-	-	1,078
Postage and freight	62	2,031	619	2,712
Purchased services - other	33,496	11,905	297	45,698
Purchased services - personnel	75,971	1,553	4,264	81,788
Rent	35,935	4,269	400	40,604
Repairs and maintenance	40,085	1,270	-	41,355
Special events	137	-	22,818	22,955
Supplies	16,388	789	643	17,820
Taxes and licenses	17,664	-	-	17,664
Telephone	3,575	12,654	1,129	17,358
Travel	7,173	509	48	7,730
Tuition and training	50	1,470	-	1,520
Utilities	63,344	2,308	8,853	74,505
Total functional expenses before depreciation	1,018,437	116,025	131,591	1,266,053
Depreciation of property and equipment	128,753	4,845	4,845	138,443
Total functional expenses	\$ 1,147,190	\$ 120,870	\$ 136,436	\$ 1,404,496

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

ROCKETOWN OF MIDDLE TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2007

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and wages	\$ 316,042	\$ 36,743	\$ 57,270	\$ 410,055
Payroll taxes	26,137	6,650	3,229	36,016
Employee benefits	21,971	4,031	9,542	35,544
Total payroll and related expenses	364,150	47,424	70,041	481,615
Direct costs of operating revenues:				
Skatepark merchandise	118,817	-	-	118,817
Café merchandise	53,715	-	-	53,715
Entertainment	15,874	-	-	15,874
Automobile	2,813	138	10	2,961
Bank fees	-	3,024	-	3,024
Board expense	-	247	-	247
Cash (over) and short	-	(738)	-	(738)
Computer software/hardware	65	786	-	851
Design, photography and printing	2,843	1,340	3,176	7,359
Dues and subscriptions	1,175	1,173	1,074	3,422
Food and entertainment	8,415	4,003	312	12,730
Gifts	465	2,881	1,313	4,659
Insurance	57,340	15,295	-	72,635
Interest	3,912	-	-	3,912
Janitorial	11,127	-	-	11,127
Legal and professional	-	11,851	-	11,851
Marketing and advertising	16,359	2,460	2,483	21,302
Meetings	118	598	163	879
Miscellaneous	592	120	-	712
Office supplies	623	3,660	205	4,488
Outreach	386	-	-	386
Postage and freight	100	1,714	1,751	3,565
Purchased services - other	10,783	5,913	2,834	19,530
Purchased services - personnel	107,457	3,325	1,300	112,082
Rent	19,805	3,428	1,039	24,272
Repairs and maintenance	42,070	2,424	-	44,494
Special events	1,021	-	25,229	26,250
Supplies	18,222	7,796	263	26,281
Taxes and licenses	33,517	9,132	-	42,649
Telephone	4,128	10,865	866	15,859
Travel	10,340	631	43	11,014
Tuition and training	623	2,253	445	3,321
Uniforms	151	-	-	151
Utilities	64,415	2,115	2,115	68,645
Total functional expenses before depreciation	971,421	143,858	114,662	1,229,941
Depreciation of property and equipment	138,394	5,024	5,222	148,640
Total functional expenses	<u>\$ 1,109,815</u>	<u>\$ 148,882</u>	<u>\$ 119,884</u>	<u>\$ 1,378,581</u>

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

ROCKETOWN OF MIDDLE TENNESSEE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Cash flows from operating activities:		
Changes in net assets	\$ 138,445	\$ (58,344)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	138,443	148,640
(Increase) decrease in:		
Accounts receivable	(4,300)	(1,416)
Contributions receivable, net	(136,670)	49,390
Inventories	4,839	(5,970)
Prepaid expenses	496	1,432
Increase (decrease) in:		
Accounts payable	(7,710)	21,368
Accrued expenses	(59,798)	33,498
Total adjustments	(64,700)	246,942
Net cash provided by operating activities	73,745	188,598
Cash flows from investing activities:		
Purchase of property and equipment	(12,667)	(24,539)
Cash flows from financing activities:		
Net decrease in line of credit	(25,000)	(235,000)
Net increase (decrease) in cash and cash equivalents	36,078	(70,941)
Cash and cash equivalents, beginning of year	21,616	92,557
Cash and cash equivalents, end of year	\$ 57,694	\$ 21,616
Other cash flow disclosures:		
Cash paid during the year for interest	\$ 2,725	\$ 3,912

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

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2008 AND 2007**

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 create culturally relevant environments that foster vital relationships between disenfranchised adolescents and Christian mentors in order to meet the social, spiritual and physical needs of teens.

The Organization's facilities include the Sixth Avenue Skatepark, a 13,000 square foot indoor skateboarding park; the RCKTWN Music Venue, a state-of-the-art night club and main stage; the Empyrean Coffee Bar, a full service coffee shop with an acoustic stage; and Level One, an intimate stage and lounge. In addition, the Organization trains volunteer mentors and offers a wide variety of enrichment programs ranging from graffiti art instruction to songwriting classes. During 2008, the Organization had over 115,000 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.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of checking and savings account balances with financial institutions.

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.

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 maintains an allowance for doubtful accounts for contributions receivable based upon the management's evaluation of historical collection experience and other relevant factors.

Temporarily Restricted Net Assets

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.

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.

Property and Equipment

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 skatepark store products and are reported at lower of cost (first-in, first-out method) or market.

Advertising

All advertising costs are expensed when incurred. There were no direct response advertising costs incurred in 2008 and 2007.

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

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.

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.

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.

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Goods and Services (Continued)

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.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

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

	2008	2007
Receivable in less than one year	\$ 99,307	\$ 61,803
Receivable in one to five years	109,938	5,000
	<u>209,245</u>	<u>66,803</u>
Allowance for doubtful accounts	(5,772)	-
	<u>\$ 203,473</u>	<u>\$ 66,803</u>

In addition, the Organization received a conditional promise to give from an organization of \$20,000. These funds are contingent upon the proper submission of reimbursement requests by the Organization for qualifying expenditures under the terms of the grant. As of June 30, 2008, the Organization had not received any funds related to this grant.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2008	2007
Land	\$ 1,050,000	\$ 1,050,000
Building and improvements	2,599,667	2,598,000
Machinery and equipment	630,117	619,119
Furniture and fixtures	40,909	40,909
	<u>4,320,693</u>	<u>4,308,028</u>
Less accumulated depreciation	(844,608)	(706,167)
	<u>\$ 3,476,085</u>	<u>\$ 3,601,861</u>

The Organization had fully depreciated assets with an original cost of approximately \$191,700 and \$76,000 as of June 30, 2008 and 2007, respectively.

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007**

NOTE 5 - RESTRICTIONS ON NET ASSETS

The temporary restrictions on net assets, consisting of contributions received or receivable, whose use is subject to time or purpose restrictions, are as follows:

	2008	2007
Grants and contributions receivable – time restriction	<u>\$ 203,473</u>	<u>\$ 66,803</u>

NOTE 6 - LINE OF CREDIT

The Organization has an unsecured revolving line of credit with a bank. The lender may, in its sole discretion, make advances to the Organization up to an aggregate amount of \$250,000. Interest, at 5.75% per annum, is payable quarterly and the line matures in February, 2009.

NOTE 7 - ACCRUED PROPERTY TAXES

During 2004, Rocketown's application for exemption from property tax for the year beginning January 1, 2004, was denied. The Organization appealed the decision and received a ruling of 85% exempt status during the year ended June 30, 2008. Accordingly, property tax has been recorded as an accrued expense on the accompanying statements of financial position. The resulting reduction of property tax expense from no exemption to an 85% exemption has been recognized in the statement of activities as property tax forgiveness revenue in the current year.

NOTE 8 - CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash on deposit with several financial institutions. At June 30, 2008 and 2007, the Organization had no accounts on deposit that exceeded the amounts insured by the Federal Deposit Insurance Corporation.

Contributions from one of the Organization's board members amounted to approximately 26% and 18% of total contributions in 2008 and 2007, respectively. Two organizations and one individual made contributions which comprised approximately 64% of the Organization's total contributions. The Organization was awarded three grants which made up approximately 76% of total foundation contributions and grants revenue in 2008. The Organization was awarded a grant from an organization that made up approximately 83% of total foundation contributions and grants revenue in 2007. Contributions from one of the Organization's board members amounted to approximately 19% of total special events revenue in 2008. The Organization received approximately 70% of total sponsorship revenue from a single sponsor.

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007**

NOTE 9 - CONTINGENCY

During 2008, the city of Nashville informed the Organization that they would be moving the road adjacent to the Organization's facility which will result in the demolition of a portion of the facility. The city has not informed the Organization when they will be required to vacate the building or the amount of payment they will receive for the building. The Organization is in the process of finding a buyer for the remainder of the facility and locating a suitable replacement facility.