

**ROCKETOWN OF MIDDLE TENNESSEE  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2012 AND 2011**

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**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, 2012 and 2011 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, 2012 and 2011, 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*

October 31, 2012

**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2012 AND 2011**

**ASSETS**

	<b>2012</b>	<b>2011</b>
Cash	\$ 189,345	\$ 377,667
Accounts receivable	10,422	3,813
Contributions receivable, net	-	118,658
Interest in net assets	5,011	5,011
Inventories	31,021	30,441
Deposits	662	662
Prepaid expenses	-	350
Property and equipment, net	<u>6,649,913</u>	<u>6,712,778</u>
 Total assets	 <u><u>\$ 6,886,374</u></u>	 <u><u>\$ 7,249,380</u></u>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Accounts payable	\$ 78,500	\$ 43,092
Accrued expenses	17,302	26,579
Deferred revenue	<u>32,533</u>	<u>6,200</u>
 Total liabilities	 <u>128,335</u>	 <u>75,871</u>
Net assets:		
Unrestricted:		
Designated for property and equipment	6,649,913	6,712,778
Undesignated	<u>4,740</u>	<u>167,055</u>
 Total unrestricted	 6,654,653	 6,879,833
 Temporarily restricted	 <u>103,386</u>	 <u>293,676</u>
 Total net assets	 <u>6,758,039</u>	 <u>7,173,509</u>
 Total liabilities and net assets	 <u><u>\$ 6,886,374</u></u>	 <u><u>\$ 7,249,380</u></u>

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

**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012**

	Unrestricted	Temporarily Restricted	Total
Operating revenues:			
Membership dues, cover charges, session fees and lessons	\$ 229,118	\$ -	\$ 229,118
Product revenue	365,531	-	365,531
Facility rentals	250,103	-	250,103
Gain on sale of property and equipment	594	-	594
Other	<u>13,620</u>	<u>23,976</u>	<u>37,596</u>
 Total operating revenues	 <u>858,966</u>	 <u>23,976</u>	 <u>882,942</u>
Public support and other revenues:			
Contributions	63,970	41,500	105,470
Foundation contributions and grants	166,144	-	166,144
Special events	305,534	-	305,534
Sponsorships	38,536	-	38,536
Net assets released in satisfaction of program restrictions	<u>255,766</u>	<u>(255,766)</u>	<u>-</u>
 Total public support and other revenues	 <u>829,950</u>	 <u>(214,266)</u>	 <u>615,684</u>
 Total revenues	 <u>1,688,916</u>	 <u>(190,290)</u>	 <u>1,498,626</u>
Functional expenses:			
Program services	1,114,836	-	1,114,836
Supporting services:			
Management and general	568,806	-	568,806
Fundraising	<u>230,454</u>	<u>-</u>	<u>230,454</u>
 Total functional expenses	 <u>1,914,096</u>	 <u>-</u>	 <u>1,914,096</u>
 Decreases in net assets	 (225,180)	 (190,290)	 (415,470)
 Net assets, beginning of year	 <u>6,879,833</u>	 <u>293,676</u>	 <u>7,173,509</u>
 Net assets, end of year	 <u>\$ 6,654,653</u>	 <u>\$ 103,386</u>	 <u>\$ 6,758,039</u>

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

**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

	Unrestricted	Temporarily Restricted	Total
Operating revenues:			
Membership dues, cover charges, session fees and lessons	\$ 202,606	\$ -	\$ 202,606
Product revenue	302,493	-	302,493
Facility rentals	201,428	-	201,428
Gain on sale of property and equipment	643,272	-	643,272
Other	44,041	-	44,041
	<u>1,393,840</u>	<u>-</u>	<u>1,393,840</u>
Total operating revenues			
Public support and other revenues:			
Contributions	53,060	878,959	932,019
Foundation contributions and grants	203,880	-	203,880
Special events	89,497	-	89,497
Sponsorships	7,343	-	7,343
Net assets released in satisfaction of program restrictions	656,324	(656,324)	-
	<u>1,010,104</u>	<u>222,635</u>	<u>1,232,739</u>
Total public support and other revenues			
Total revenues			
	<u>2,403,944</u>	<u>222,635</u>	<u>2,626,579</u>
Functional expenses:			
Program services	1,171,857	-	1,171,857
Supporting services:			
Management and general	509,163	-	509,163
Fundraising	165,803	-	165,803
	<u>1,846,823</u>	<u>-</u>	<u>1,846,823</u>
Total functional expenses			
Increases in net assets	557,121	222,635	779,756
Net assets, beginning of year	<u>6,322,712</u>	<u>71,041</u>	<u>6,393,753</u>
Net assets, end of year	<u>\$ 6,879,833</u>	<u>\$ 293,676</u>	<u>\$ 7,173,509</u>

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

**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2012**

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 540,751	\$ 109,309	\$ 77,405	\$ 727,465
Payroll taxes	45,765	3,066	9,479	58,310
Employee benefits	42,071	6,364	7,103	55,538
<b>Total payroll and related expenses</b>	<b>628,587</b>	<b>118,739</b>	<b>93,987</b>	<b>841,313</b>
Direct costs of operating revenues:				
Skatepark merchandise	128,830	-	-	128,830
Café merchandise	63,296	-	-	63,296
Entertainment	1,188	-	-	1,188
Bank fees	42	8,377	472	8,891
Board expense	-	-	525	525
Dues and subscriptions	845	2,083	2,131	5,059
Food and entertainment	9,907	3,258	2,581	15,746
Gifts	2,465	2,074	594	5,133
Giveaways/incentives	5,008	-	436	5,444
Insurance	1,510	87,633	-	89,143
Legal and professional	-	14,502	-	14,502
Marketing and advertising	14,698	530	1,980	17,208
Miscellaneous	2,322	1,693	6	4,021
Office supplies	37	3,030	28	3,095
Postage and freight	60	300	1,880	2,240
Purchased services - other	33,870	43,681	50,612	128,163
Purchased services - personnel	32,992	38	50	33,080
Rent	-	27,271	-	27,271
Repairs and maintenance	21,782	25,784	-	47,566
Special events	-	230	61,385	61,615
Supplies	24,043	19,111	1,792	44,946
Taxes and licenses	18,012	15,092	-	33,104
Telephone	3,219	17,773	1,002	21,994
Travel	7,219	168	130	7,517
Tuition and training	1,250	2,721	10,863	14,834
Utilities	10,897	80,804	-	91,701
<b>Total functional expenses before depreciation</b>	<b>1,012,079</b>	<b>474,892</b>	<b>230,454</b>	<b>1,717,425</b>
Depreciation of property and equipment	102,757	93,914	-	196,671
<b>Total functional expenses</b>	<b>\$ 1,114,836</b>	<b>\$ 568,806</b>	<b>\$ 230,454</b>	<b>\$ 1,914,096</b>

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

**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2011**

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 561,617	\$ 100,094	\$ 61,936	\$ 723,647
Payroll taxes	43,059	8,644	8,137	59,840
Employee benefits	53,675	6,891	8,442	69,008
	<hr/>	<hr/>	<hr/>	<hr/>
Total payroll and related expenses	658,351	115,629	78,515	852,495
Direct costs of operating revenues:				
Skatepark merchandise	117,393	-	-	117,393
Café merchandise	51,737	-	-	51,737
Entertainment	17,315	-	-	17,315
Bank fees	6	9,151	566	9,723
Design, photography and printing	-	1,478	25	1,503
Dues and subscriptions	393	2,253	2,520	5,166
Food and entertainment	12,856	3,354	4,464	20,674
Gifts	2,228	1,270	1,241	4,739
Giveaways/incentives	5,799	181	300	6,280
Insurance	57,017	3,582	-	60,599
Interest	-	687	-	687
Legal and professional	84	13,747	-	13,831
Marketing and advertising	11,671	1,993	5,519	19,183
Miscellaneous	626	159	30,005	30,790
Moving expenses	-	14,148	-	14,148
Office supplies	257	3,089	38	3,384
Outreach	28	-	-	28
Postage and freight	768	1,204	2,943	4,915
Purchased services - other	40,351	54,597	27,524	122,472
Purchased services - personnel	46,243	17,496	375	64,114
Rent	-	37,977	-	37,977
Repairs and maintenance	14,865	9,633	310	24,808
Special events	1,071	-	3,344	4,415
Supplies	22,857	24,204	2,407	49,468
Taxes and licenses	-	10,628	-	10,628
Telephone	5,318	18,445	986	24,749
Travel	3,949	793	3,564	8,306
Tuition and training	266	1,632	1,157	3,055
Utilities	9,826	79,046	-	88,872
	<hr/>	<hr/>	<hr/>	<hr/>
Total functional expenses before depreciation	1,081,275	426,376	165,803	1,673,454
Depreciation of property and equipment	90,582	82,787	-	173,369
	<hr/>	<hr/>	<hr/>	<hr/>
Total functional expenses	<u>\$ 1,171,857</u>	<u>\$ 509,163</u>	<u>\$ 165,803</u>	<u>\$ 1,846,823</u>

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

**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (415,470)	\$ 779,756
Adjustments to reconcile (decrease) increase in net assets to net cash used by operating activities:		
Depreciation	196,671	173,369
Gain on sale of property and equipment	(594)	(643,272)
(Increase) decrease in:		
Accounts receivable	(6,609)	25,649
Contributions receivable, net	118,658	(47,616)
Inventories	(580)	(5,776)
Deposits	-	4,750
Prepaid expenses	350	(350)
Increase (decrease) in:		
Accounts payable	35,408	(22,979)
Accrued expenses	(9,277)	(2,694,270)
Deferred revenue	26,333	6,200
	<u>360,360</u>	<u>(3,204,295)</u>
Total adjustments		
	<u>(55,110)</u>	<u>(2,424,539)</u>
Net cash used by operating activities		
Cash flows from investing activities:		
Proceeds from disposal of property and equipment	650	643,272
Purchase of property and equipment	(133,862)	(588,758)
Purchase of improvements to capital assets	-	(17,848)
	<u>(133,212)</u>	<u>36,666</u>
Net cash (used) provided by investing activities		
Net decrease in cash	(188,322)	(2,387,873)
Cash, beginning of year	<u>377,667</u>	<u>2,765,540</u>
Cash, end of year	<u>\$ 189,345</u>	<u>\$ 377,667</u>
<u>Other cash flow disclosures:</u>		
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ 671</u>

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

**ROCKETOWN OF MIDDLE TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012 AND 2011**

**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 operates a skate park at 601 Fourth Avenue South Nashville, TN. This facility includes a 9,000 square foot indoor skateboarding park; the main venue, a 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 programming. In addition, the Organization trains volunteer mentors and offers a wide variety of enrichment programs ranging from graffiti art instruction to songwriting classes. During 2012, the Organization had over 40,000 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.

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, 2012 AND 2011**

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

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, 2012 AND 2011**

**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 \$1,167 and \$0 in 2012 and 2011, 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 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, 2012 no uncertain positions are taken or are expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Advertising

All advertising costs are expensed when incurred. There were no direct response advertising costs incurred in 2012 and 2011.

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, 2012 AND 2011**

**NOTE 3 - CONTRIBUTIONS RECEIVABLE**

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

	2012	2011
Receivable in less than one year	\$ -	\$ 108,108
Receivable in one to five years	-	12,500
	-	120,608
Allowance for doubtful accounts	-	(1,950)
	<u>\$ -</u>	<u>\$ 118,658</u>

Contributions receivable at June 30, 2011 included outstanding contributions from board members of \$54,750. These amounts were receivable in less than one year.

**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 \$5,011 at June 30, 2012 and 2011. 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 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	2012	2011
Land	\$ 2,367,032	\$ 2,367,032
Building and improvements	4,370,463	4,240,135
Machinery and equipment	584,402	581,518
Furniture and fixtures	30,790	30,790
	<u>7,352,687</u>	<u>7,219,475</u>
Less accumulated depreciation	<u>(702,774)</u>	<u>(506,697)</u>
	<u>\$ 6,649,913</u>	<u>\$ 6,712,778</u>

The Organization recognized a gain on sale of property and equipment of \$643,272 in the year ended June 30, 2011.

**ROCKETOWN OF MIDDLE TENNESSEE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 6 - RESTRICTIONS ON NET ASSETS**

The temporary restrictions on net assets are as follows:

	2012	2011
Grants and contributions receivable – time restriction	\$ -	\$ 118,658
Donations restricted for capital improvements	<u>103,386</u>	<u>175,018</u>
	<u>\$ 103,386</u>	<u>\$ 293,676</u>

There were no permanently restricted net assets as of June 30, 2012 or 2011.

**NOTE 7 - 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 \$8,842 and \$10,844 as expense under this plan during the years ended June 30, 2012 and 2011, respectively. These amounts were included in the statements of functional expense as employee benefits.

**NOTE 8 - LEASE COMMITMENTS**

The Organization leases property at 522 and 526 5<sup>th</sup> Ave. South, Nashville, Tennessee which it uses for various program and administrative activities. The rental agreement has an original term of 5 years expiring on March 31, 2015 and includes an option to extend the term for another 3 years.

Minimum lease rental commitments under the leasing agreement for the years end June 30 are as follows:

2013	\$ 28,090
2014	28,932
2015	<u>22,184</u>
	<u>\$ 79,206</u>

**NOTE 9 - LINE OF CREDIT**

In January 2011, the Organization obtained a \$250,000 revolving line of credit from Pinnacle Bank to help finance its short-term capital needs. Interest is payable monthly on outstanding balances at an interest rate of no less than 4%. At June 30, 2012, the line's effective rate of interest was 4%. No borrowings occurred during the years ended June 30, 2012 or 2011, 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, 2012 AND 2011**

**NOTE 10 - 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 55% and 70% of total foundation contributions and grants revenue for the years ended June 30, 2012 and 2011 respectively. Contributions from two donors represented approximately 45% of total special events revenue in 2011. Three organizations and one individual made contributions which comprised approximately 45% of the Organization's total contributions for the year ended 2012. One organization made contributions which comprised approximately 50% of the Organization's total contributions for the year ended 2011. One company made a contribution which comprised approximately 65% of total sponsorship revenue in 2012.

**NOTE 11 - 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, 2012 and 2011 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 12 - SUBSEQUENT EVENTS**

The Organization's management has evaluated subsequent events through October 31, 2012, the date which the financial statements were available to be issued.