

**ROCKETOWN OF MIDDLE TENNESSEE  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2006 AND 2005**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Rocketown of Middle Tennessee

We have audited the accompanying statement of financial position of Rocketown of Middle Tennessee (a Tennessee not-for-profit corporation, the "Organization") as of June 30, 2006 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The statement of financial position and the related statements of activities, functional expenses and cash flows for the year ended June 30, 2005 were audited by other independent auditors' whose auditors' report dated November 7, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rocketown of Middle Tennessee as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

October 9, 2006

**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2006 AND 2005**

**ASSETS**

	<b>2006</b>	<b>2005</b>
Cash and cash equivalents	\$ 92,557	\$ 186,071
Accounts receivable	2,106	3,473
Contributions receivable (notes 2 and 4)	116,193	83,396
Inventories	31,664	25,449
Prepaid expenses	2,590	15,191
Property and equipment, net	<u>3,725,962</u>	<u>3,869,695</u>
 Total assets	 <u><u>\$ 3,971,072</u></u>	 <u><u>\$ 4,183,275</u></u>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Accounts payable	\$ 12,373	\$ 31,551
Accrued property taxes (note 8)	55,375	51,328
Accrued expenses	25,684	17,323
Line of credit	260,000	-
Note payable (note 7)	<u>-</u>	<u>799,375</u>
 Total liabilities	 <u>353,432</u>	 <u>899,577</u>
 Commitments and contingencies		
Net assets:		
Unrestricted:		
Designated for property and equipment	3,465,962	3,070,320
Undesignated	<u>35,485</u>	<u>129,982</u>
 Total unrestricted	 3,501,447	 3,200,302
 Temporarily restricted (note 4)	 <u>116,193</u>	 <u>83,396</u>
 Total net assets	 <u>3,617,640</u>	 <u>3,283,698</u>
 Total liabilities and net assets	 <u><u>\$ 3,971,072</u></u>	 <u><u>\$ 4,183,275</u></u>

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

**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006**

	Unrestricted	Temporarily Restricted	Total
Operating revenues:			
Membership dues, cover charges, session fees, lessons	\$ 291,950	\$ -	\$ 291,950
Product revenue	305,525	-	305,525
Facility rentals	119,299	-	119,299
Other	31,443	-	31,443
Total operating revenues	<u>748,217</u>	<u>-</u>	<u>748,217</u>
Public support and other revenues:			
Contributions	672,915	12,571	685,486
Foundation contributions and grants	307,250	65,300	372,550
Special events	5,650	-	5,650
Net assets released in satisfaction of program restrictions	45,074	(45,074)	-
Total public support and other revenues	<u>1,030,889</u>	<u>32,797</u>	<u>1,063,686</u>
Total revenues	<u>1,779,106</u>	<u>32,797</u>	<u>1,811,903</u>
Expenses:			
Program services	1,118,186	-	1,118,186
Supporting services:			
Management and general	275,793	-	275,793
Fundraising	83,982	-	83,982
Total expenses	<u>1,477,961</u>	<u>-</u>	<u>1,477,961</u>
Changes in net assets	301,145	32,797	333,942
Net assets, beginning of year	<u>3,200,302</u>	<u>83,396</u>	<u>3,283,698</u>
Net assets, end of year	<u>\$ 3,501,447</u>	<u>\$ 116,193</u>	<u>\$ 3,617,640</u>

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

**ROCKETOWN OF MIDDLE TENNESSEE**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2005**

	Unrestricted	Temporarily Restricted	Total
Operating revenues:			
Membership dues, cover charges, session fees, lessons	\$ 212,615	\$ -	\$ 212,615
Product revenue	285,430	-	285,430
Facility rentals	168,343	-	168,343
Other	4,704	-	4,704
	<u>671,092</u>	<u>-</u>	<u>671,092</u>
Public support and other revenues:			
Contributions	355,030	41,756	396,786
Foundation contributions and grants	139,559	20,000	159,559
Special events	64,533	-	64,533
Interest	12	-	12
Net assets released in satisfaction of program restrictions	51,965	(51,965)	-
	<u>611,099</u>	<u>9,791</u>	<u>620,890</u>
Total revenues	<u>1,282,191</u>	<u>9,791</u>	<u>1,291,982</u>
Expenses:			
Program services	1,240,462	-	1,240,462
Supporting services:			
Management and general	113,782	-	113,782
Fundraising	106,700	-	106,700
	<u>1,460,944</u>	<u>-</u>	<u>1,460,944</u>
Changes in net assets	(178,753)	9,791	(168,962)
Net assets, beginning of year	3,379,055	73,605	3,452,660
Net assets, end of year	<u>\$ 3,200,302</u>	<u>\$ 83,396</u>	<u>\$ 3,283,698</u>

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

**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
Cash flows from operating activities:		
Changes in net assets	\$ 333,942	\$ (168,962)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	153,965	155,532
(Increase) decrease in:		
Accounts receivable	1,367	5,643
Contributions receivable	(32,797)	(23,796)
Inventories	(6,215)	(3,653)
Prepaid expenses	12,601	5,496
Increase (decrease) in:		
Accounts payable	(19,178)	1,820
Accrued expenses	12,408	27,307
Total adjustments	122,151	168,349
Net cash provided by (used in) operating activities	456,093	(613)
Cash flows from investing activities:		
Purchase of property and equipment	(10,232)	(20,872)
Cash flows from financing activities:		
Net increase in line of credit	260,000	-
Payments on note payable	(799,375)	(75,000)
Net cash used in financing activities	(539,375)	(75,000)
Net decrease in cash and cash equivalents	(93,514)	(96,485)
Cash and cash equivalents, beginning of year	186,071	282,556
Cash and cash equivalents, end of year	\$ 92,557	\$ 186,071
Other cash flow disclosures:		
Cash paid during the year for interest	\$ 29,979	\$ 41,044

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

**ROCKETOWN OF MIDDLE TENNESSEE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2006**

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and wages	\$ 325,196	\$ 94,795	\$ 38,401	\$ 458,392
Payroll taxes	29,083	7,546	3,001	39,630
Employee benefits	21,847	8,921	10,418	41,186
Total payroll and related expenses	376,126	111,262	51,820	539,208
Direct costs of operating revenues:				
Skatepark merchandise	131,548	-	-	131,548
Café merchandise	58,900	-	-	58,900
Entertainment	26,713	-	-	26,713
Automobile	2,251	15	7	2,273
Bank fees	-	5,026	1	5,027
Board expense	-	246	46	292
Cash (over) and short	-	(880)	-	(880)
Computer software/hardware	(1,297)	776	499	(22)
Design, photography and printing	6,425	1,421	11,237	19,083
Dues and subscriptions	1,137	2,259	850	4,246
Event expenses	143	-	-	143
Food and entertainment	9,518	3,276	1,392	14,186
Gifts	3,925	1,720	579	6,224
Insurance	11,175	69,109	-	80,284
Interest	34,151	-	-	34,151
Internet development	(63)	228	-	165
Janitorial	9,742	-	-	9,742
Legal and professional	-	17,804	-	17,804
Marketing and advertising	22,885	1,470	1,155	25,510
Meetings	206	1,246	200	1,652
Miscellaneous	(520)	201	-	(319)
Office supplies	13,417	5,579	236	19,232
Outreach	194	-	-	194
Postage and freight	1,860	2,564	4,631	9,055
Purchased services - other	5,188	8,246	650	14,084
Purchased services - personnel	92,122	8,836	610	101,568
Rent	8,787	6,047	361	15,195
Repairs and maintenance	58,295	2,501	(303)	60,493
Taxes and licenses	20,022	1,346	-	21,368
Telephone	3,456	7,673	644	11,773
Travel	11,274	7,997	963	20,234
Tuition and training	946	1,514	560	3,020
Uniforms	1,240	467	-	1,707
Utilities	65,233	2,455	2,455	70,143
Total functional expenses before depreciation	974,999	270,404	78,593	1,323,996
Depreciation of property and equipment	143,187	5,389	5,389	153,965
Total functional expenses	\$ 1,118,186	\$ 275,793	\$ 83,982	\$ 1,477,961

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



**ROCKETOWN OF MIDDLE TENNESSEE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2005**

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and wages	\$ 323,548	\$ 26,853	\$ 31,613	\$ 382,014
Payroll taxes	18,741	5,061	5,959	29,761
Employee benefits	20,848	5,631	6,629	33,108
Total payroll and related expenses	363,137	37,545	44,201	444,883
Direct costs of operating revenues:				
Driven merchandise	7,093	-	-	7,093
Skatepark merchandise	112,112	-	-	112,112
Café merchandise	78,611	-	-	78,611
Entertainment	97,145	-	-	97,145
Security fees	17,643	-	-	17,643
Rentals and parties	43,940	-	-	43,940
Automobile	807	663	-	1,470
Bank fees	-	4,484	-	4,484
Cash (over) and short	6,431	-	-	6,431
Design, photography and printing	-	5,614	12,810	18,424
Dues and subscriptions	-	1,513	-	1,513
Event expenses	-	-	25,426	25,426
Food and entertainment	-	5,501	3,048	8,549
Gifts	-	2,511	-	2,511
Insurance	79,039	2,975	2,975	84,989
Interest	38,172	1,436	1,436	41,044
Internet development	8,261	-	-	8,261
Legal and professional	-	22,943	-	22,943
Marketing and advertising	29,701	-	-	29,701
Office supplies	17,323	316	316	17,955
Outreach	15,522	-	-	15,522
Postage and freight	1,867	3,145	2,399	7,411
Rent	2,065	78	78	2,221
Repairs and maintenance	44,084	1,659	1,659	47,402
Taxes and licenses	52,019	1,891	1,891	55,801
Telephone	9,214	2,489	2,930	14,633
Travel	15,290	9,003	-	24,293
Tuition and training	-	2,485	-	2,485
Uniforms	889	-	-	889
Utilities	55,453	2,087	2,087	59,627
Total functional expenses before depreciation	1,095,818	108,338	101,256	1,305,412
Depreciation of property and equipment	144,644	5,444	5,444	155,532
Total functional expenses	\$ 1,240,462	\$ 113,782	\$ 106,700	\$ 1,460,944

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

**ROCKETOWN OF MIDDLE TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2006 AND 2005**

**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 2006, 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, 2006 AND 2005**

**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.

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, buildings, 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 2006 and 2005.

**ROCKETOWN OF MIDDLE TENNESSEE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2006 AND 2005**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Program and Supporting Services

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

Program services – includes the direct cost of operating the Organization's 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 gifts 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, 2006 AND 2005**

**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.

Reclassifications

Certain reclassifications have been made to prior year amounts to be comparative with the current year presentation.

**NOTE 3 - CONCENTRATION OF CREDIT AND MARKET RISK**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash on deposit with several financial institutions. Accounts at financial institutions are insured by the Federal Deposit Insurance Corporation. Balances per financial institutions in excess of applicable insurance limits were approximately \$101,000 at June 30, 2005.

Contributions from one of the Organization's board members amounted to approximately 26% of total contributions in 2006. One other individual made contributions which comprised approximately 58% of total contributions in 2006. There were no contributions from a single donor that made up more than 10% of total contributions in 2005. The Organization was awarded four grants from various organizations which made up 67% of total foundation contributions and grants revenue in 2006. The Organization was awarded three grants from various organizations which made up 60% of total foundation contributions and grants revenue in 2005.

**NOTE 4 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable are summarized as follows:

	2006	2005
Receivable in less than one year	\$ 99,623	\$ 45,983
Receivable in one to five years	<u>16,570</u>	<u>37,413</u>
	<u>\$ 116,193</u>	<u>\$ 83,396</u>

**ROCKETOWN OF MIDDLE TENNESSEE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2006 AND 2005**

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	2006	2005
Land	\$ 1,050,000	\$ 1,050,000
Building and improvements	2,574,190	2,574,190
Machinery and equipment	620,271	610,039
Furniture and fixtures	39,028	39,028
	<u>4,283,489</u>	<u>4,273,257</u>
Less accumulated depreciation	<u>(557,527)</u>	<u>(403,562)</u>
	<u>\$ 3,725,962</u>	<u>\$ 3,869,695</u>

The Organization had fully depreciated assets with an original cost of approximately \$42,000 and \$10,000 as of June 30, 2006 and 2005, respectively.

**NOTE 6 - 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:

	2006	2005
Grants and contributions receivable – time restriction	<u>\$ 116,193</u>	<u>\$ 83,396</u>

**NOTE 7 - LINE OF CREDIT AND NOTE PAYABLE**

In conjunction with the purchase of its property, the Organization borrowed \$1,450,000 under a loan agreement entered into with a bank. The agreement required monthly interest payments on the outstanding principal balance beginning November 1, 2003 through October 1, 2004. On October 1, 2004, the Organization signed a new one-year loan agreement, which required monthly interest payments on the outstanding principal balance. On October 1, 2005, the Organization entered into a new loan agreement, which extended the maturity date to January 1, 2006. Interest was computed at a variable index rate equal to the published prime rate less 0.25%. This loan was guaranteed by two of the Organization's board members in the amount of \$375,000 each.

In January 2006, the Organization established an unsecured revolving line of credit with a bank. The initial amount borrowed was \$350,000, the proceeds of which were used to pay off the above mortgage. The loan agreement stipulates that once the initial advance is paid down to below \$250,000, 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 January, 2007.

**ROCKETOWN OF MIDDLE TENNESSEE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2006 AND 2005**

**NOTE 8 - ACCRUED PROPERTY TAXES**

During 2004, Rocketown's application for exemption from property tax for the year beginning January 1, 2004, was denied. The Organization has appealed the decision, but the matter has not been fully resolved. Accordingly, property tax has been recorded as an accrued expense on the accompanying statements of financial position.