

# Rocketown of Middle Tennessee

## Management Discussion and Analysis

### For the Fiscal year ending June 30, 2013

#### Our Fiscal Strategy

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

#### Our Financial Results

We are proud to present a fiscal year where cash has increased and budgets were met. We seek to continue to be excellent stewards of the funds provided and are working to better the organization's position.

As noted in the following audit, our results are as follows:

	F2013	F2012	
	Jul 2012-Jun 2013	Jul 2011-Jun2012	Change %
<b>Revenues</b>			
Operational Revenues	869,095	882,942	-2%
Public Support	945,077	615,684	54%
<b>Total Revenues</b>	<b>1,814,172</b>	<b>1,498,626</b>	<b>21%</b>
<b>Expenses</b>			
Program Services	973,256	1,012,079	-4%
Supporting Services			
Management and General	457,948	474,892	-4%
Fundraising	218,978	230,454	-5%
Asset Depreciation	181,807	196,671	-8%
<b>Total Expenses</b>	<b>1,831,989</b>	<b>1,914,096</b>	<b>-4%</b>
<b>Net increase (decrease)</b>	<b>(17,817)</b>	<b>(415,470)</b>	<b>96%</b>
<b>Net increase (decrease) - excluding depreciation</b>	<b>163,990</b>	<b>(218,799)</b>	<b>175%</b>
<b>Net increase (decrease) in cash</b>	<b>58,492</b>	<b>(188,322)</b>	<b>131%</b>

The organization results have increased total revenues by 21% and decreased expenses by 4.3% compared to prior year results. These improvements are due to increased focus on development relationships and controlling costs.

Our organization's biggest asset is the property at 601 Fourth Avenue, where youth come to be ministered to in a safe environment. The property's book value is \$6,669,039, resulting in annual depreciation expense on that asset of \$110,191 with no associated debt. Sixty-one (61%) 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.

### Highlights from our Year of Service

- We have new leadership, under the direction of James Mallory, focusing us on strategy and goals so that we are better equipped and more intentional and deliberate in our ministry approach
- Youth Attendance is being tracked and growing, telling a story of impact in the lives of our youth. We have served 150,000 youth in 2013 by offering creative, spiritual, educational and social programs and support
- We have completed an IT overhaul , creating more stability and creating a highly secure environment for our kids moving forward
- Our rental business is growing, allowing us to increase brand equity in the community and offset ministry impact and expense (19% increase over prior year)
- Development surpassed its original aggressive goals as a result of enhanced relationships with donors and grantors

**ROCKETOWN OF MIDDLE TENNESSEE  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2013 AND 2012**

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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, 2013 and 2012 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, 2013 and 2012 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 CPB Group, PLLC*

October 8, 2013

**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2013 AND 2012**

<b>ASSETS</b>			
		<b>2013</b>	<b>2012</b>
Current assets			
Cash	\$	252,837	\$ 189,345
Accounts receivable		28,006	10,422
Contributions receivable		9,150	-
Interest in net assets		4,937	5,011
Inventories		36,653	31,021
Deposits		<u>662</u>	<u>662</u>
Total current assets		332,245	236,461
Property and equipment, net		6,522,588	6,649,913
Endowment fund		<u>5,000</u>	<u>-</u>
Total assets		<u>\$ 6,859,833</u>	<u>\$ 6,886,374</u>

**LIABILITIES AND NET ASSETS**

Liabilities:			
Accounts payable	\$	26,748	\$ 78,500
Accrued expenses		40,619	17,302
Deferred revenue		<u>47,244</u>	<u>32,533</u>
Total liabilities		<u>114,611</u>	<u>128,335</u>
Net assets:			
Unrestricted:			
Designated for property and equipment		6,522,588	6,649,913
Undesignated		<u>183,911</u>	<u>4,740</u>
Total unrestricted		6,706,499	6,654,653
Temporarily restricted		33,723	103,386
Permanently restricted		<u>5,000</u>	<u>-</u>
Total net assets		<u>6,745,222</u>	<u>6,758,039</u>
Total liabilities and net assets		<u>\$ 6,859,833</u>	<u>\$ 6,886,374</u>

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

**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2013**

	Unrestricted	Temporarily Restricted	Total
<b>Operating revenues:</b>			
Membership dues, cover charges, session fees and lessons	\$ 230,601	\$ -	\$ 230,601
Product revenue	342,406	-	342,406
Facility rentals	287,920	-	287,920
Gain on sale of property and equipment	50	-	50
Other	<u>1,000</u>	<u>7,118</u>	<u>8,118</u>
<b>Total operating revenues</b>	<u>861,977</u>	<u>7,118</u>	<u>869,095</u>
<b>Public support and other revenues:</b>			
Contributions	282,901	9,150	292,051
Foundation contributions and grants	247,380	-	247,380
Special events	345,646	-	345,646
Sponsorships	60,000	-	60,000
Net assets released in satisfaction of program restrictions	<u>85,931</u>	<u>(85,931)</u>	<u>-</u>
<b>Total public support and other revenues</b>	<u>1,021,858</u>	<u>(76,781)</u>	<u>945,077</u>
<b>Total revenues</b>	<u>1,883,835</u>	<u>(69,663)</u>	<u>1,814,172</u>
<b>Functional expenses:</b>			
Program services	1,060,069	-	1,060,069
Supporting services:			
Management and general	552,942	-	552,942
Fundraising	<u>218,978</u>	<u>-</u>	<u>218,978</u>
<b>Total functional expenses</b>	<u>1,831,989</u>	<u>-</u>	<u>1,831,989</u>
<b>Net increase (decrease)</b>	51,846	(69,663)	(17,817)
<b>Unrestricted and temporarily restricted net assets, beginning of year</b>	<u>6,654,653</u>	<u>103,386</u>	<u>6,758,039</u>
<b>Unrestricted and temporarily restricted net assets, end of year</b>	<u>\$ 6,706,499</u>	<u>\$ 33,723</u>	6,740,222
<b>Permanently restricted net assets</b>			<u>5,000</u>
<b>Net assets, end of year</b>			<u>\$ 6,745,222</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	13,620	23,976	37,596
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	255,766	(255,766)	-
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	230,454	-	230,454
Total functional expenses	<u>1,914,096</u>	<u>-</u>	<u>1,914,096</u>
Net decrease	(225,180)	(190,290)	(415,470)
Unrestricted and temporarily restricted net assets, beginning of year	<u>6,879,833</u>	<u>293,676</u>	<u>7,173,509</u>
Unrestricted and temporarily restricted net assets, end of year	<u>\$ 6,654,653</u>	<u>\$ 103,386</u>	6,758,039
Permanently restricted net assets			<u>-</u>
Net assets, end of year			<u>\$ 6,758,039</u>

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



**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2013**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and wages	\$ 487,719	\$ 104,797	\$ 103,912	\$ 696,428
Payroll taxes	38,470	6,485	9,843	54,798
Employee benefits	37,344	3,448	6,794	47,586
Total payroll and related expenses	563,533	114,730	120,549	798,812
Direct costs of operating revenues:				
Skatepark merchandise	122,962	-	-	122,962
Café merchandise	65,355	-	-	65,355
Entertainment	1,797	-	-	1,797
Bank fees	10	11,026	526	11,562
Bad debt expense	8,989	294	2,500	11,783
Board expense	-	-	-	-
Design, photography and printing	911	578	511	2,000
Dues and subscriptions	2,297	2,968	1,910	7,175
Food and entertainment	12,108	2,012	2,473	16,593
Gifts	1,405	90	399	1,894
Giveaways/incentives	11,138	-	644	11,782
Insurance	1,800	61,170	-	62,970
Legal and professional	-	14,631	-	14,631
Marketing and advertising	13,921	-	467	14,388
Minor equipment	1,994	1,747	-	3,741
Miscellaneous	1,459	5,049	12	6,520
Office supplies	73	1,236	97	1,406
Outreach	125	-	-	125
Postage and freight	7,160	350	3,070	10,580
Purchased services - other	40,953	40,888	49,442	131,283
Purchased services - personnel	23,839	638	934	25,411
Rent	4,400	27,880	-	32,280
Repairs and maintenance	26,173	35,643	-	61,816
Special events	421	1,200	31,166	32,787
Supplies	24,751	21,494	1,792	48,037
Taxes and licenses	25,061	4,879	450	30,390
Telephone	2,847	18,467	633	21,947
Travel	4,319	24	1,388	5,731
Tuition and training	2,160	-	15	2,175
Utilities	1,295	90,954	-	92,249
Total functional expenses before depreciation	973,256	457,948	218,978	1,650,182
Depreciation of property and equipment	86,813	94,994	-	181,807
Total functional expenses	\$ 1,060,069	\$ 552,942	\$ 218,978	\$ 1,831,989

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

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

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and wages	\$ 540,751	\$ 109,309	\$ 77,405	\$ 727,465
Payroll taxes	45,765	3,066	9,479	58,310
Employee benefits	<u>42,071</u>	<u>6,364</u>	<u>7,103</u>	<u>55,538</u>
Total payroll and related expenses	628,587	118,739	93,987	841,313
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
Bad debt expense	-	-	-	-
Board expense	-	-	525	525
Design, photography and printing	-	-	-	-
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
Minor equipment	-	-	-	-
Miscellaneous	2,322	1,693	6	4,021
Office supplies	37	3,030	28	3,095
Outreach	-	-	-	-
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	<u>10,897</u>	<u>80,804</u>	<u>-</u>	<u>91,701</u>
Total functional expenses before depreciation	1,012,079	474,892	230,454	1,717,425
Depreciation of property and equipment	<u>102,757</u>	<u>93,914</u>	<u>-</u>	<u>196,671</u>
Total functional expenses	<u>\$ 1,114,836</u>	<u>\$ 568,806</u>	<u>\$ 230,454</u>	<u>\$ 1,914,096</u>

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

**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
Cash flows from operating activities:		
Decrease in net assets	<u>\$ (17,817)</u>	<u>\$ (415,470)</u>
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Depreciation	181,807	196,671
Gain on sale of property and equipment	(50)	(594)
(Increase) decrease in:		
Accounts receivable	(17,584)	(6,609)
Contributions receivable	(9,150)	118,658
Interest in net assets	74	-
Inventories	(5,632)	(580)
Deposits	-	350
Increase (decrease) in:		
Accounts payable	(51,752)	35,408
Accrued expenses	23,317	(9,277)
Deferred revenue	<u>14,711</u>	<u>26,333</u>
Total adjustments	<u>135,741</u>	<u>360,360</u>
Net cash provided (used) by operating activities	<u>117,924</u>	<u>(55,110)</u>
Cash flows from investing activities:		
Proceeds from disposal of property and equipment	50	650
Purchase of property and equipment	(54,482)	(133,862)
Funds received for endowment fund	<u>(5,000)</u>	<u>-</u>
Net cash used by investing activities	<u>(59,432)</u>	<u>(133,212)</u>
Net increase (decrease) in cash	58,492	(188,322)
Cash, beginning of year	<u>189,345</u>	<u>377,667</u>
Cash, end of year	<u><u>\$ 247,837</u></u>	<u><u>\$ 189,345</u></u>

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

**ROCKETOWN OF MIDDLE TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2013 AND 2012**

**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 2013, the Organization had over 153,000 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, 2013 AND 2012**

**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, 2013 AND 2012**

**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 \$6,355 and \$1,167 in 2013 and 2012, 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, 2013 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 2013 and 2012.

**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, 2013 AND 2012**

**NOTE 3 - CONTRIBUTIONS RECEIVABLE**

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

	2013	2012
Receivable in less than one year	\$ 9,150	\$ -
Receivable in one to five years	<u>-</u>	<u>-</u>
	<u>\$ 9,150</u>	<u>\$ -</u>

Contributions receivable at June 30, 2013 consisted entirely of outstanding contributions from board members.

**NOTE 4 - INTEREST IN NET ASSETS**

Amounts reported in the statements of financial position as interest in net assets represent the cumulative transfers by the Organization to the Firm Foundation of Middle Tennessee (the "Foundation") which is a component fund of the National Christian Charitable Foundation, Inc., as well as earnings thereon. These amounts totaled \$4,937 and \$5,011 at June 30, 2013 and 2012. 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 are comprised of the following as of June 30:

	2013	2012
Skatepark shop merchandise	\$ 26,832	\$ 26,905
Coffee bar merchandise	7,027	3,751
Other merchandise	<u>2,794</u>	<u>365</u>
	<u>\$ 36,653</u>	<u>\$ 31,021</u>

**ROCKETOWN OF MIDDLE TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2013 AND 2012**

**NOTE 6 - PROPERTY AND EQUIPMENT**

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

	2013	2012
Land	\$ 2,367,032	\$ 2,367,032
Building and improvements	4,387,693	4,370,463
Machinery and equipment	621,654	584,402
Furniture and fixtures	30,790	30,790
	<u>7,407,169</u>	<u>7,352,687</u>
Less accumulated depreciation	<u>(884,581)</u>	<u>(702,774)</u>
	<u><u>\$ 6,522,588</u></u>	<u><u>\$ 6,649,913</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. The donor-designated endowment is reported as permanently restricted net assets.

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

	2013	2012
Donor permanently restricted endowment fund	<u><u>\$ 5,000</u></u>	<u><u>\$ -</u></u>

Changes in endowment net assets as of June 30, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	5,000	5,000
Investment income	-	-	-	-
Net appreciation	-	-	-	-
Amounts appropriated for expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,000</u></u>	<u><u>\$ 5,000</u></u>



**ROCKETOWN OF MIDDLE TENNESSEE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2013 AND 2012**

**NOTE 8 - RESTRICTIONS ON NET ASSETS**

The temporary restrictions on net assets are as follows:

	2013	2012
Contributions receivable – time restriction	\$ 9,150	\$ -
Donations restricted for capital improvements	24,573	103,386
	<u>\$ 33,723</u>	<u>\$ 103,386</u>

As of June 30, 2013, permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets can be use to support the Organization's general activities. There were no permanently restricted net assets as of June 30, 2012.

**NOTE 9 - 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 \$4,700 and \$8,842 as expense under this plan during the years ended June 30, 2013 and 2012, respectively. These amounts were included in the statements of functional expense as employee benefits.

**NOTE 10 - 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. Rent expense under this lease amounted to \$28,090 for the year ended June 30, 2012.

The Organization also leases office equipment under an operating lease which expires on March 31, 2018 for total annual lease payments of \$2,880. Lease expense for this equipment was \$1,440 in the year ending June 30, 2013.

The minimum lease payments required under the above operating leases as of June 30, 2013 are as follows:

2014	\$ 31,812
2015	25,064
2016	2,880
2017	2,880
2018	<u>2,160</u>
	<u>\$ 64,796</u>

**ROCKETOWN OF MIDDLE TENNESSEE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2013 AND 2012**

**NOTE 11 - 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, 2013, the line's effective rate of interest was 4%. No borrowings occurred during the years ended June 30, 2013 or 2012, and none have occurred through the date of the independent auditors' report.

**NOTE 12 - 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% of total foundation contributions and grants revenue for both the years ended June 30, 2013 and 2012. Two individuals made contributions which comprised approximately 45% of the Organization's total contributions for the year ended June 30, 2013. Three organizations and one individual made contributions which comprised approximately 45% of the Organization's total contributions for the year ended June 30, 2012. One company made a contribution which comprised approximately 85% and 65% of total sponsorship revenue in 2013 and 2012, respectively.

**NOTE 13 - 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, 2013 and 2012 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 14 - SUBSEQUENT EVENTS**

The Organization's management has evaluated subsequent events through October 8, 2013, the date which the financial statements were available to be issued.