

**ROCKETOWN OF MIDDLE TENNESSEE**  
**(A NONPROFIT ORGANIZATION)**  
**AUDITED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**ROCKETOWN OF MIDDLE TENNESSEE**  
**( A NONPROFIT ORGANIZATION )**  
**AUDITED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Rockettown of Middle Tennessee  
Nashville, Tennessee

I have audited the accompanying financial statements of Rockettown of Middle Tennessee (a Tennessee not-for-profit corporation) which comprise the statement of financial position as of June 30, 2018, and the related statement of activities and changes in net assets, functional expenses, and cash flows for the year 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.

### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 auditor's 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 entity'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 entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

In my 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Prior Period Financial Statements**

The financial statements of Rocketown of Middle Tennessee as of June 30, 2017, were audited by another auditor whose report dated October 11, 2017, reported an unmodified opinion.

A handwritten signature in black ink that reads "Gregory Lemon CPA, PLLC". The signature is stylized with a large, looped initial 'G'.

Gregory Lemon, CPA  
Columbia, Tennessee  
October 31, 2018

**ROCKETOWN OF MIDDLE TENNESSEE**  
**(A NONPROFIT ORGANIZATION)**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND 2017**

	<b><u>2018</u></b>	<b><u>2017</u></b>
<b><u>ASSETS</u></b>		
<b>Current assets</b>		
Cash	\$ 426,048	\$ 271,825
Accounts receivable	10,431	9,820
Contributions receivable	5,923	-
Prepays	20,757	-
Interest in net assets	4,898	4,898
Inventories	49,519	56,752
Deposits	662	662
<b>Total current assets</b>	518,238	343,957
<b>Property and equipment, net of accumulated depreciation</b>	6,575,332	6,712,780
<b>Endowment fund</b>	18,444	12,846
<b>Total assets</b>	<u>\$ 7,112,014</u>	<u>\$ 7,069,583</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current liabilities</b>		
Accounts payable	\$ 64,244	\$ 22,398
Accrued expenses	73,178	48,544
Deferred revenue	79,609	24,425
Current portion of note payable	28,681	27,601
Current portion of capital lease obligation	16,045	15,571
<b>Total current liabilities</b>	261,757	138,539
<b>Long term debt</b>		
Note payable, net of current portion	621,270	649,548
Capital lease obligation, net of current portion	4,557	21,501
<b>Total liabilities</b>	887,584	809,588
<b>Net assets</b>		
<b>Unrestricted</b>		
Designated for property and equipment	6,575,332	6,712,780
Undesignated (deficit)	(449,346)	(560,528)
<b>Total unrestricted</b>	6,125,986	6,152,252
<b>Temporarily restricted</b>	83,444	97,743
<b>Permanently restricted</b>	15,000	10,000
<b>Total net assets</b>	6,224,430	6,259,995
<b>Total liabilities and net assets</b>	<u>\$ 7,112,014</u>	<u>\$ 7,069,583</u>

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

**ROCKETOWN OF MIDDLE TENNESSEE**  
**(A NONPROFIT ORGANIZATION)**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating revenues</b>				
Membership dues, cover charges, session fees, and lessons	\$ 250,368	\$ -	\$ -	\$ 250,368
Product revenue	278,325	-	-	278,325
Facility rentals	524,019	-	-	524,019
Investment income	-	598	-	598
Other	31,592	-	-	31,592
<b>Total operating revenue</b>	<u>1,084,304</u>	<u>598</u>	<u>-</u>	<u>1,084,902</u>
<b>Public support and other revenues</b>				
Contributions	267,246	-	5,000	272,246
Foundation contributions and grants	173,408	80,000	-	253,408
Special events	417,727	-	-	417,727
Net assets released from program restrictions	94,897	(94,897)	-	-
<b>Total public support and other revenues</b>	<u>953,278</u>	<u>(14,897)</u>	<u>5,000</u>	<u>943,381</u>
<b>Total revenues</b>	<u>2,037,582</u>	<u>(14,299)</u>	<u>5,000</u>	<u>2,028,283</u>
<b>Functional expenses</b>				
Program services	1,361,291	-	-	1,361,291
Supporting services				
Management and general	461,560	-	-	461,560
Fundraising	240,997	-	-	240,997
<b>Total functional expenses</b>	<u>2,063,848</u>	<u>-</u>	<u>-</u>	<u>2,063,848</u>
<b>Net increase (decrease) in net assets</b>	(26,266)	(14,299)	5,000	(35,565)
<b>Net assets, beginning of year</b>	<u>6,152,252</u>	<u>97,743</u>	<u>10,000</u>	<u>6,259,995</u>
<b>Net assets, end of year</b>	<u>\$ 6,125,986</u>	<u>\$ 83,444</u>	<u>\$ 15,000</u>	<u>\$ 6,224,430</u>

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

**ROCKETOWN OF MIDDLE TENNESSEE**  
**(A NONPROFIT ORGANIZATION)**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating revenues</b>				
Membership dues, cover charges, session fees, and lessons	\$ 222,599	\$ -	\$ -	\$ 222,599
Product revenue	254,358	-	-	254,358
Facility rentals	493,323	-	-	493,323
Investment income	-	1,090	-	1,090
Other	5,904	-	-	5,904
<b>Total operating revenue</b>	<u>976,184</u>	<u>1,090</u>	<u>-</u>	<u>977,274</u>
<b>Public support and other revenues</b>				
Contributions	226,648	-	-	226,648
Foundation contributions and grants	142,269	87,147	-	229,416
Special events	333,510	-	-	333,510
Net assets released from program restrictions	87,250	(87,250)	-	-
<b>Total public support and other revenues</b>	<u>789,677</u>	<u>(103)</u>	<u>-</u>	<u>789,574</u>
<b>Total revenues</b>	<u>1,765,861</u>	<u>987</u>	<u>-</u>	<u>1,766,848</u>
<b>Functional expenses</b>				
Program services	1,357,792	-	-	1,357,792
Supporting services				
Management and general	381,671	-	-	381,671
Fundraising	227,223	-	-	227,223
<b>Total functional expenses</b>	<u>1,966,686</u>	<u>-</u>	<u>-</u>	<u>1,966,686</u>
<b>Net increase (decrease) in net assets</b>	(200,825)	987	-	(199,838)
<b>Net assets, beginning of year</b>	<u>6,353,077</u>	<u>96,756</u>	<u>10,000</u>	<u>6,459,833</u>
<b>Net assets, end of year</b>	<u>\$ 6,152,252</u>	<u>\$ 97,743</u>	<u>\$ 10,000</u>	<u>\$ 6,259,995</u>

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

**ROCKETOWN OF MIDDLE TENNESSEE**  
**(A NONPROFIT ORGANIZATION)**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<b><u>Program Services</u></b>	<b><u>Management &amp; General</u></b>	<b><u>Fundraising</u></b>	<b><u>Total</u></b>
Salaries and wages	\$ 501,232	\$ 160,235	\$ 138,685	\$ 800,152
Payroll taxes	39,015	11,934	10,288	61,237
Employee benefits	53,969	16,384	9,908	80,261
<b>Total payroll and related expenses</b>	594,216	188,553	158,881	941,650
Direct costs of operating revenues				
Skatepark merchandise	103,258	-	-	103,258
Café merchandise	45,774	-	-	45,774
Bank fees	1,310	10,448	2,209	13,967
Design, photography, printing	-	348	6,024	6,372
Dues and subscriptions	1,894	8,490	3,513	13,897
Food and entertainment	43,497	6,359	2,573	52,429
Gifts	750	2,668	1,461	4,879
Giveaways and incentives	6,847	-	-	6,847
Insurance	-	66,102	-	66,102
Interest	28,647	-	-	28,647
Legal and professional	-	13,295	-	13,295
Marketing and advertising	2,107	81	19	2,207
Minor equipment	13,564	-	-	13,564
Miscellaneous	5,875	3,405	930	10,210
Office supplies	57	1,148	245	1,450
Postage and freight	6,239	766	959	7,964
Purchased services - other	121,816	71,981	-	193,797
Purchased services - personnel	-	29,365	-	29,365
Repairs and maintenance	41,223	17,840	-	59,063
Special events	5,759	-	55,161	60,920
Supplies	32,197	2,806	239	35,242
Taxes and licenses	51,418	3,501	-	54,919
Telephone	3,668	21,052	1,215	25,935
Travel	3,415	907	621	4,943
Tuition and training	801	6,058	560	7,419
Utilities	100,061	-	-	100,061
<b>Total functional expenses before depreciation</b>	1,214,393	455,173	234,610	1,904,176
Depreciation of property and equipment	146,898	6,387	6,387	159,672
<b>Total functional expenses</b>	<b>\$ 1,361,291</b>	<b>\$ 461,560</b>	<b>\$ 240,997</b>	<b>\$ 2,063,848</b>

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



**ROCKETOWN OF MIDDLE TENNESSEE**  
**(A NONPROFIT ORGANIZATION)**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<b><u>Program Services</u></b>	<b><u>Management &amp; General</u></b>	<b><u>Fundraising</u></b>	<b><u>Total</u></b>
Salaries and wages	\$ 490,959	\$ 167,160	\$ 121,173	\$ 779,292
Payroll taxes	36,407	12,213	9,637	58,257
Employee benefits	54,843	8,403	9,665	72,911
<b>Total payroll and related expenses</b>	582,209	187,776	140,475	910,460
Direct costs of operating revenues				
Skatepark merchandise	96,960	-	-	96,960
Café merchandise	44,487	-	-	44,487
Bank fees	436	9,831	4,336	14,603
Design, photography, printing	-	452	403	855
Dues and subscriptions	1,824	6,620	3,895	12,339
Food and entertainment	28,280	4,873	4,284	37,437
Gifts	4,061	170	552	4,783
Giveaways and incentives	7,680	-	89	7,769
Insurance	59,181	-	6,163	65,344
Interest	30,648	-	-	30,648
Legal and professional	109	13,767	-	13,876
Marketing and advertising	2,124	-	6,513	8,637
Minor equipment	5,324	250	-	5,574
Miscellaneous	13,151	4,931	459	18,541
Office supplies	733	1,861	327	2,921
Postage and freight	5,533	878	1,513	7,924
Purchased services - other	117,520	101,906	2,449	221,875
Purchased services - personnel	288	-	-	288
Repairs and maintenance	43,248	12,228	444	55,920
Special events	101	39	45,210	45,350
Supplies	41,725	2,871	933	45,529
Taxes and licenses	29,855	4,524	100	34,479
Telephone	3,895	19,820	1,170	24,885
Travel	4,568	315	631	5,514
Tuition and training	1,336	2,172	890	4,398
Utilities	85,619	-	-	85,619
<b>Total functional expenses before depreciation</b>	1,210,895	375,284	220,836	1,807,015
Depreciation of property and equipment	146,897	6,387	6,387	159,671
<b>Total functional expenses</b>	<b>\$ 1,357,792</b>	<b>\$ 381,671</b>	<b>\$ 227,223</b>	<b>\$ 1,966,686</b>

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

**ROCKETOWN OF MIDDLE TENNESSEE**  
**(A NONPROFIT ORGANIZATION)**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<b><u>2018</u></b>	<b><u>2017</u></b>
<b>Cash flows from operating activities</b>		
Net decrease in net assets	\$ (35,565)	\$ (199,838)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Depreciation	159,672	159,671
Net realized and unrealized gains and losses on endowment fund	(313)	(979)
Change in operating assets and liabilities:		
Accounts receivable	(611)	1,774
Contributions receivable	(5,923)	100
Prepaid	(20,757)	-
Interest in net assets	-	(162)
Inventories	7,233	341
Accounts payable	41,846	(5,883)
Accrued expenses	24,634	1,978
Deferred revenue	55,184	(35,734)
	<u>225,400</u>	<u>(78,732)</u>
<b>Net cash provided (used) by operating activities</b>		
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(22,224)	(954)
Purchase of investments	(5,000)	-
Interest and dividends reinvested in endowment fund	(285)	(111)
	<u>(27,509)</u>	<u>(1,065)</u>
<b>Net cash used by investing activities</b>		
<b>Cash flows from financing activities</b>		
Payments on note payable	(27,198)	(26,053)
Payments on capital lease obligation	(16,470)	(10,125)
	<u>(43,668)</u>	<u>(36,178)</u>
<b>Net cash used by financing activities</b>		
<b>Net increase (decrease) in cash and cash equivalents</b>	154,223	(115,975)
<b>Cash and cash equivalents, beginning of year</b>	<u>271,825</u>	<u>387,800</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 426,048</u></u>	<u><u>\$ 271,825</u></u>
Cash paid during the year for interest	<u><u>\$ 28,647</u></u>	<u><u>\$ 30,648</u></u>
Non-cash investing activities		
Equipment acquired with capital lease	<u><u>\$ -</u></u>	<u><u>\$ 47,197</u></u>

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

**ROCKETOWN OF MIDDLE TENNESSEE**  
**(A NONPROFIT ORGANIZATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Rocketown of Middle Tennessee (the "Organization") was founded in 1994 as a Tennessee not for-profit corporation. The Organization's mission is to offer hope to the next generation through Christ's love. Rocketown's vision is to be the place of peace, purpose, and possibilities for youth.

The Organization offers creative, spiritual, educational, social, and job preparedness programs and support. A skate park, concert, and event venue are operated at 601 Fourth Avenue South, Nashville, TN and 526 Fifth Avenue South. This facility includes a 9,000 square foot indoor skateboarding park; a small venue, a large state-of-the-art music venue and performance space; the coffee bar, a full-service coffee shop; a dance studio that can be used as a multi purpose room; a recording studio; and four classroom spaces for after-school and summer camp programming. During 2018, the Organization had over 33,338 youth visits and another 165,000 community visits representing every social demographic of the greater Nashville area and surrounding counties.

**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 and Cash Equivalents**

Cash consists principally of checking and savings account balances with financial institutions. Cash excludes cash restricted for the endowment fund.

**Accounts Receivable**

Accounts receivable are stated at unpaid balances. The Organization expects to fully collect these items; therefore no allowance for uncollectible accounts has been recorded in the financial statements.

**Property, Equipment and Depreciation**

Land, building, equipment and furniture purchases in excess of \$1,000 are capitalized and stated at acquisition cost or at estimated fair value at the time of the gift, if donated. Depreciation of property and equipment, other than land, is calculated by the straight-line method over estimated useful lives ranging from three to ten years for equipment and furniture and five to forty years for building and improvements.

**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.

**ROCKETOWN OF MIDDLE TENNESSE**  
**(A NONPROFIT ORGANIZATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (CONTINUED)**

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 and changes in net assets as net assets released from 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 estimated 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.

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 (IRS) 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.

**ROCKETOWN OF MIDDLE TENNESSE**  
**(A NONPROFIT ORGANIZATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Income taxes for such unrelated business income totaled \$13,211 and \$11,113 in 2018 and 2017, 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, 2018 no uncertain positions are taken or are expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization is no longer subject to routine audits by taxing jurisdictions for any tax periods beginning before 2015.

Advertising

All advertising costs are expensed when incurred. There were no direct response advertising costs incurred in 2018 and 2017.

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.

**NOTE B – CONTRIBUTIONS RECEIVABLE**

Contributions receivable as of June 30, 2018 and 2017 were \$5,923 and \$-0-, respectively. All amounts are due within one year and considered collectible.

**ROCKETOWN OF MIDDLE TENNESSE**  
**(A NONPROFIT ORGANIZATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE C – 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 \$4,898 at June 30, 2018 and 2017. 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 D – INVENTORIES**

Inventories consist of the following as of June 30:

	2018	2017
Skatepark shop merchandise	\$ 39,095	\$ 44,492
Coffee bar merchandise	10,424	12,260
	<u>\$ 49,519</u>	<u>\$ 56,752</u>

**NOTE E – PROPERTY AND EQUIPMENT**

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

	2018	2017
Land	\$ 2,367,032	\$ 2,367,032
Building and improvements	5,153,637	5,162,227
Machinery and equipment	734,179	696,318
Furniture and fixtures	37,163	37,163
	<u>8,292,011</u>	<u>8,262,740</u>
Less accumulated depreciation	<u>(1,716,679)</u>	<u>(1,549,960)</u>
	<u>\$ 6,575,332</u>	<u>\$ 6,712,780</u>

**NOTE F – ENDOWMENT FUND**

The Organization has received a donation to establish a permanent endowment fund to provide funds to help support the Organization's various youth programs. Terms of the donation require the funds to be segregated from other Organization funds. Gifts made to the donor-restricted endowment are reported as permanently restricted net assets.

**ROCKETOWN OF MIDDLE TENNESSE**  
**(A NONPROFIT ORGANIZATION)**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE F – ENDOWMENT FUND (CONTINUED)**

The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization according to the terms of the donation.

Endowment net asset composition as of June 30, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment fund	\$ -	\$ 3,444	\$ 15,000	\$ 18,444

Changes in endowment net assets as of June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, Beginning of year	\$ -	\$ 2,846	\$ 10,000	\$ 12,846
Interest and dividends	-	285	-	285
Unrealized losses	-	(2,379)	-	(2,379)
Realized gains	-	2,692	-	2,692
Contributions	-	-	5,000	5,000
Amounts appropriated for expenditure	-	-	-	-
Endowment net assets, end of year	\$ -	\$ 3,444	\$ 15,000	\$ 18,444

Endowment net asset composition as of June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment fund	\$ -	\$ 2,846	\$ 10,000	\$ 12,846

Changes in endowment net assets as of June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, Beginning of year	\$ -	\$ 1,756	\$ 10,000	\$ 11,756
Interest and dividends	-	111	-	111
Unrealized gains	-	979	-	979
Amounts appropriated for expenditure	-	-	-	-
Endowment net assets, end of year	\$ -	\$ 2,846	\$ 10,000	\$ 12,846

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**NOTE G – FAIR VALUE MEASUREMENTS**

The Organization has adopted the provisions of the Fair Value Measurement Topic of the FASB ASC, which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

*Level 1* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

*Level 2* Inputs to the valuation methodology include the following:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at June 30, 2018 and 2017. A description of the valuation methodologies used for assets measured at fair value is as follows:

Fixed income, mutual funds and other equities and bonds – valued at the closing price reported on the active market on which the individual securities are traded.

Investments and their fair value measurement consist of the following June 30:

	Level 1 2018	Level 1 2017
Cash equivalents	\$ 765	\$ 1,606
Mutual Funds	15,651	11,240
Bonds	2,028	-
Total investments	<u>\$ 18,444</u>	<u>\$ 12,846</u>

**NOTE H – LINE OF CREDIT**

The Organization has a \$250,000 revolving line of credit with a financial institution to help finance its short-term capital needs. This note is payable upon demand. Interest is payable monthly on outstanding balances at an interest rate of no less than 4.45%. At June 30, 2018, the line's effective rate of interest was 4.45%. No line of credit borrowings occurred during the years ended June 30, 2018 and 2017 and none have occurred through October 31, 2018. Subsequent to year end on July 19, 2018 they renewed the line of credit for \$150,000 at an interest rate of 7.5%.



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**NOTE I – LONG TERM DEBT**

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

	<u>2018</u>	<u>2017</u>
Note payable to a financial institution, fixed interest of 4.25%, monthly principal and interest payments of \$4,654 with final payment due June 2021, secured by buildings and land.	\$ 649,951	\$ 677,149
Less current portion	<u>(28,681)</u>	<u>(27,601)</u>
	<u>\$ 621,270</u>	<u>\$ 649,548</u>

The following table represents future maturities of long-term debt:

<u>Fiscal Year Ending June 30,</u>	
2019	\$ 28,681
2020	29,924
2021	<u>591,346</u>
	<u>\$ 649,951</u>

**NOTE J – CAPITAL LEASE OBLIGATION**

Capital lease obligation consists of the following for the Organization at June 30:

	<u>2018</u>	<u>2017</u>
Capital lease obligation to financing company, fixed interest of 3.00%, monthly principal and interest payments of \$1,373 with final payment due October 2019, secured by equipment.	\$ 20,602	\$ 37,072
Less current portion	<u>(16,045)</u>	<u>(15,571)</u>
	<u>\$ 4,557</u>	<u>\$ 21,501</u>

The following table represents future maturities of the capital lease obligation:

<u>Fiscal Year Ending June 30,</u>	
2019	\$ 16,045
2020	4,557
	<u>\$ 20,602</u>

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**NOTE K – RESTRICTIONS ON NET ASSETS**

The temporary restrictions on net assets are as follows:

	<u>2018</u>	<u>2017</u>
Time restricted donations	\$ 80,000	\$ 94,897
Investment income from endowment fund	<u>3,444</u>	<u>2,846</u>
	<u>\$ 83,444</u>	<u>\$ 97,743</u>

As of June 30, 2018, and 2017, permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets can be used to support the Organization's general activities.

**NOTE L – 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 \$23,492 and \$21,062 as expense under this plan during the years ended June 30, 2018 and 2017, respectively. These amounts were included in the statements of functional expenses as employee benefits.

**NOTE M – LEASE COMMITMENTS**

The Organization leases office equipment under four operating leases which expire at various times between 2018 and 2020. Lease expense for this equipment was \$19,528 and \$10,071 for the years ending June 30, 2018 and 2017, respectively.

The minimum lease payments required under the above operating leases are as follows:

<u>Fiscal Year Ending June 30,</u>	
2019	\$ 1,630
2020	<u>86</u>
	<u>\$ 1,716</u>

**NOTE N – 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. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to significant credit risk related to cash. Uninsured amounts at June 30, 2018 and 2017 were approximately \$140,759 and \$15,000, respectively.

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**NOTE N – CONCENTRATIONS (CONTINUED)**

The Organization was awarded seven grants which made up approximately 81% of total foundation contributions and grants revenue for the year ended June 30, 2018. The Organization was awarded six grants which made up approximately 88% of total foundation contributions and grants revenue for the year ended June 30, 2017. One corporation made contributions which comprised approximately 20% of the Organization's total contributions for the year ended June 30, 2018. One corporation made contributions which comprised approximately 23% of the Organization's total contributions for the year ended June 30, 2017.

**NOTE O – 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, 2018 and 2017 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 P – SUBSEQUENT EVENTS**

The Organization's management has evaluated subsequent events through October 31, 2018, which is the date the financial statements were available to be issued.