

**ROCKETOWN OF MIDDLE TENNESSEE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2007 AND 2006**

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TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	2
Statements of Activities	3-4
Statements of Functional Expenses	5-6
Statements of Cash Flows	7
Notes to Financial Statements	8-12

BLANKENSHIP CPA GROUP, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rockettown of Middle Tennessee

We have audited the accompanying statements of financial position of Rockettown of Middle Tennessee (a Tennessee not-for-profit corporation, the "Organization") as of June 30, 2007 and 2006 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, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Blankenship CPA Group, PLLC

September 6, 2007

ROCKETOWN OF MIDDLE TENNESSEE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007 AND 2006

ASSETS

	2007	2006
Cash and cash equivalents	\$ 21,616	\$ 92,557
Accounts receivable	3,522	2,106
Contributions receivable	66,803	116,193
Inventories	37,634	31,664
Prepaid expenses	1,158	2,590
Property and equipment, net	<u>3,601,861</u>	<u>3,725,962</u>
 Total assets	 <u><u>\$ 3,732,594</u></u>	 <u><u>\$ 3,971,072</u></u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 33,741	\$ 12,373
Accrued property taxes	86,660	55,375
Accrued expenses	27,897	25,684
Line of credit	<u>25,000</u>	<u>260,000</u>
 Total liabilities	 <u>173,298</u>	 <u>353,432</u>
 Commitments and contingencies		
Net assets:		
Unrestricted:		
Designated for property and equipment	3,591,861	3,465,962
Undesignated	<u>(99,368)</u>	<u>35,485</u>
 Total unrestricted	 3,492,493	 3,501,447
 Temporarily restricted	 <u>66,803</u>	 <u>116,193</u>
 Total net assets	 <u>3,559,296</u>	 <u>3,617,640</u>
 Total liabilities and net assets	 <u><u>\$ 3,732,594</u></u>	 <u><u>\$ 3,971,072</u></u>

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

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

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

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

ROCKETOWN OF MIDDLE TENNESSEE
STATEMENT OF 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	1,212,720	-	1,212,720
Supporting services:			
Management and general	177,353	-	177,353
Fundraising	87,888	-	87,888
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 FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2007

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

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	\$ 367,239	\$ 48,846	\$ 42,307	\$ 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	418,169	65,313	55,726	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
Food and entertainment	9,518	3,276	1,392	14,186
Gifts	3,925	1,720	579	6,224
Insurance	63,666	16,618	-	80,284
Interest	34,151	-	-	34,151
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	(1,263)	4,348	110	3,195
Outreach	194	-	-	194
Postage and freight	1,860	2,564	4,631	9,055
Purchased services - other	5,125	8,474	650	14,249
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
Special events	143	-	-	143
Supplies	14,680	1,231	126	16,037
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	1,069,533	171,964	82,499	1,323,996
Depreciation of property and equipment	143,187	5,389	5,389	153,965
Total functional expenses	\$ 1,212,720	\$ 177,353	\$ 87,888	\$ 1,477,961

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

ROCKETOWN OF MIDDLE TENNESSEE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
Cash flows from operating activities:		
Changes in net assets	\$ (58,344)	\$ 333,942
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	148,640	153,965
(Increase) decrease in:		
Accounts receivable	(1,416)	1,367
Contributions receivable	49,390	(32,797)
Inventories	(5,970)	(6,215)
Prepaid expenses	1,432	12,601
Increase (decrease) in:		
Accounts payable	21,368	(19,178)
Accrued expenses	33,498	12,408
Total adjustments	246,942	122,151
Net cash provided by operating activities	188,598	456,093
Cash flows from investing activities:		
Purchase of property and equipment	(24,539)	(10,232)
Cash flows from financing activities:		
Net (decrease) increase in line of credit	(235,000)	260,000
Payments on note payable	-	(799,375)
Net cash used in financing activities	(235,000)	(539,375)
Net decrease in cash and cash equivalents	(70,941)	(93,514)
Cash and cash equivalents, beginning of year	92,557	186,071
Cash and cash equivalents, end of year	\$ 21,616	\$ 92,557
Other cash flow disclosures:		
Cash paid during the year for interest	\$ 3,912	\$ 34,151

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

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2007 AND 2006**

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 Emyrean 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 2007, 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, 2007 AND 2006

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

Inventories

Inventories consist principally of coffee bar supplies and skatepark store products and are reported at lower of cost (first-in, first-out method) or market.

Advertising

All advertising costs are expensed when incurred. There were no direct response advertising costs incurred in 2007 and 2006.

ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2007 AND 2006

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 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, 2007 AND 2006**

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 the June 30, 2006 financial statements in order to conform to the current year presentation.

NOTE 3 - CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash on deposit with several financial institutions. At June 30, 2007 and 2006, the Organization had no accounts on deposit that exceeded the amounts insured by the Federal Deposit Insurance Corporation.

Contributions from one of the Organization's board members amounted to approximately 18% and 26% of total contributions in 2007 and 2006, respectively. One other individual made contributions which comprised approximately 58% of total contributions in 2006. The Organization was awarded a grant from an organization that made up approximately 83% of total foundation contributions and grants revenue in 2007. The Organization was awarded four grants from various organizations which made up approximately 67% of total foundation contributions and grants revenue in 2006.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows:

	2007	2006
Receivable in less than one year	\$ 61,803	\$ 99,623
Receivable in one to five years	<u>5,000</u>	<u>16,570</u>
	<u>\$ 66,803</u>	<u>\$ 116,193</u>

**ROCKETOWN OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2007 AND 2006**

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2007	2006
Land	\$ 1,050,000	\$ 1,050,000
Building and improvements	2,598,000	2,574,190
Machinery and equipment	619,119	620,271
Furniture and fixtures	40,909	39,028
	<u>4,308,028</u>	<u>4,283,489</u>
Less accumulated depreciation	<u>(706,167)</u>	<u>(557,527)</u>
	<u>\$ 3,601,861</u>	<u>\$ 3,725,962</u>

The Organization had fully depreciated assets with an original cost of approximately \$76,000 and \$42,000 as of June 30, 2007 and 2006, 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:

	2007	2006
Grants and contributions receivable – time restriction	<u>\$ 66,803</u>	<u>\$ 116,193</u>

NOTE 7 - LINE OF CREDIT

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 an existing 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 February, 2009.

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.