

ROCKETOWN OF MIDDLE TENNESSEE
FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
JUNE 30, 2005 AND 2004

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying statements of financial position of Rocketown of Middle Tennessee, a Tennessee not-for-profit corporation ("Rocketown"), as of June 30, 2005 and 2004, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of Rocketown'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 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 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 Rocketown of Middle Tennessee as of June 30, 2005 and 2004, 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.

KraftCPAs PLLC

Nashville, Tennessee
November 7, 2005

ROCKETOWN OF MIDDLE TENNESSEE

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 186,071	\$ 282,556
Accounts receivable	3,473	9,116
Contributions receivable - Note 2	83,396	59,600
Inventory	25,449	21,796
Prepaid insurance	15,191	20,687
Property and equipment - net of accumulated depreciation - Note 3	<u>3,869,695</u>	<u>4,004,355</u>
TOTAL ASSETS	<u>\$ 4,183,275</u>	<u>\$ 4,398,110</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 31,551	\$ 29,731
Accrued expenses	68,651	41,344
Note payable - Note 5	<u>799,375</u>	<u>874,375</u>
TOTAL LIABILITIES	<u>899,577</u>	<u>945,450</u>
COMMITMENTS AND CONTINGENCIES - Notes 5 and 6		
<u>NET ASSETS</u>		
Unrestricted:		
Designated for property and equipment, net of related debt	3,070,320	3,129,980
Undesignated	<u>129,982</u>	<u>249,075</u>
Total unrestricted	3,200,302	3,379,055
Temporarily restricted - Note 4	<u>83,396</u>	<u>73,605</u>
TOTAL NET ASSETS	<u>3,283,698</u>	<u>3,452,660</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,183,275</u>	<u>\$ 4,398,110</u>

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

ROCKETOWN OF MIDDLE TENNESSEE

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005		
	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUE			
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
TOTAL OPERATING REVENUE	671,092	-	671,092
PUBLIC SUPPORT AND OTHER REVENUE			
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)	-
TOTAL PUBLIC SUPPORT AND OTHER REVENUE	611,099	9,791	620,890
TOTAL REVENUE	1,282,191	9,791	1,291,982
EXPENSES			
Program services	1,240,462	-	1,240,462
Supporting services:			
Management and general	113,782	-	113,782
Fundraising	106,700	-	106,700
TOTAL EXPENSES	1,460,944	-	1,460,944
CHANGE 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	\$ 3,200,302	\$ 83,396	\$ 3,283,698

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

2004		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 256,695	\$ -	\$ 256,695
267,274	-	267,274
127,249	-	127,249
300	-	300
<u>651,518</u>	<u>-</u>	<u>651,518</u>
860,487	72,600	933,087
475,927	-	475,927
10,725	-	10,725
111	-	111
<u>52,502</u>	<u>(52,502)</u>	<u>-</u>
<u>1,399,752</u>	<u>20,098</u>	<u>1,419,850</u>
<u>2,051,270</u>	<u>20,098</u>	<u>2,071,368</u>
1,298,115	-	1,298,115
125,877	-	125,877
<u>94,078</u>	<u>-</u>	<u>94,078</u>
<u>1,518,070</u>	<u>-</u>	<u>1,518,070</u>
533,200	20,098	553,298
<u>2,845,855</u>	<u>53,507</u>	<u>2,899,362</u>
<u>\$ 3,379,055</u>	<u>\$ 73,605</u>	<u>\$ 3,452,660</u>

ROCKETOWN OF MIDDLE TENNESSEE

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (168,962)	\$ 553,298
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	155,532	152,047
(Increase) decrease in:		
Accounts receivable	5,643	(9,116)
Contributions receivable	(23,796)	(59,600)
Inventory	(3,653)	2,146
Prepaid insurance	5,496	6,850
Increase (decrease) in:		
Accounts payable	1,820	(7,895)
Accrued expenses	27,307	11,506
Deferred revenue	<u>-</u>	<u>(2,172)</u>
TOTAL ADJUSTMENTS	<u>168,349</u>	<u>93,766</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(613)</u>	<u>647,064</u>
INVESTING ACTIVITIES		
Payment of prior year accounts payable for construction in progress	-	(119,126)
Purchase of property and equipment	(20,872)	(1,345,060)
Decrease in deposits	<u>-</u>	<u>9,800</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(20,872)</u>	<u>(1,454,386)</u>
FINANCING ACTIVITIES		
Proceeds from note payable	-	1,450,000
Payments on note payable	<u>(75,000)</u>	<u>(575,625)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(75,000)</u>	<u>874,375</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(96,485)	67,053
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>282,556</u>	<u>215,503</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 186,071</u>	<u>\$ 282,556</u>
OTHER CASH FLOW DISCLOSURES		
Cash paid for interest	<u>\$ 41,044</u>	<u>\$ 35,819</u>

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

ROCKETOWN OF MIDDLE TENNESSEE

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005			
	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and wages	\$ 323,548	\$ 26,853	\$ 31,613	\$ 382,014
Payroll taxes	18,741	5,061	5,959	29,761
Employee benefits	<u>20,848</u>	<u>5,631</u>	<u>6,629</u>	<u>33,108</u>
 TOTAL PAYROLL AND RELATED EXPENSES	 363,137	 37,545	 44,201	 444,883
 Direct costs of operating revenue:				
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 expense	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
Miscellaneous	-	-	-	-
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	<u>55,453</u>	<u>2,087</u>	<u>2,087</u>	<u>59,627</u>
 TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	 1,095,818	 108,338	 101,256	 1,305,412
 Depreciation of building and equipment	 <u>144,644</u>	 <u>5,444</u>	 <u>5,444</u>	 <u>155,532</u>
 TOTAL FUNCTIONAL EXPENSES	 <u>\$ 1,240,462</u>	 <u>\$ 113,782</u>	 <u>\$ 106,700</u>	 <u>\$ 1,460,944</u>

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

2004

PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
\$ 351,967	\$ 32,077	\$ 29,295	\$ 413,339
22,342	5,016	3,861	31,219
23,042	5,438	4,967	33,447
397,351	42,531	38,123	478,005
11,776	-	-	11,776
99,652	-	-	99,652
75,743	-	-	75,743
125,636	-	-	125,636
29,695	-	-	29,695
23,717	-	-	23,717
498	1,201	-	1,699
-	5,137	-	5,137
(943)	-	-	(943)
7,082	11,986	8,316	27,384
-	1,004	-	1,004
-	-	21,628	21,628
583	4,900	-	5,483
-	4,955	-	4,955
101,189	3,808	3,808	108,805
33,311	1,254	1,254	35,819
2,903	-	968	3,871
-	17,935	300	18,235
53,853	-	-	53,853
147	-	-	147
24,291	2,614	3,005	29,910
-	-	-	-
1,264	4,987	3,867	10,118
23,526	885	885	25,296
32,752	1,233	1,233	35,218
45,274	2,572	1,091	48,937
13,875	4,625	2,312	20,812
1,285	5,176	-	6,461
-	1,786	-	1,786
-	-	-	-
52,252	1,966	1,966	56,184
1,156,712	120,555	88,756	1,366,023
141,403	5,322	5,322	152,047
\$ 1,298,115	\$ 125,877	\$ 94,078	\$ 1,518,070

ROCKETOWN OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Rocketown of Middle Tennessee ("Rocketown") was founded in 1994 as a Tennessee not-for-profit corporation. Rocketown'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 the teens.

The Rocketown facility includes 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, Rocketown trains volunteer mentors and offers a wide variety of enrichment programs ranging from graffiti art instruction to songwriting classes. During 2005, Rocketown had over 125,000 visits representing every social demographic of the greater Nashville area and surrounding counties.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of checking and savings account balances with financial institutions.

Contributions and Support

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 Statement of Activities as net assets released from 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.

ROCKETOWN OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Rocketown is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

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.

Inventory

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.

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 Rocketown'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 Rocketown'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.

ROCKETOWN OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 possesses such skills, and would have been purchased by Rocketown, if not donated. Such services are recognized at fair value as support and expense in the period the services are performed.

A number of unpaid volunteers have made significant contributions of their time to assist Rocketown in implementing various programs and exhibits. The value of contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

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 reporting 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.

ROCKETOWN OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30:

	<u>2005</u>	<u>2004</u>
Due in less than one year	\$ 45,983	\$ 41,360
Due in one to five years	<u>37,413</u>	<u>18,240</u>
	<u>\$ 83,396</u>	<u>\$ 59,600</u>

NOTE 3 - PROPERTY AND EQUIPMENT

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

	<u>2005</u>	<u>2004</u>
Land	\$ 1,050,000	\$ 1,050,000
Building and improvements	2,574,190	2,573,190
Machinery and equipment	610,039	591,617
Furniture and fixtures	<u>39,028</u>	<u>37,578</u>
	4,273,257	4,252,385
Less accumulated depreciation	<u>(403,562)</u>	<u>(248,030)</u>
	<u>\$ 3,869,695</u>	<u>\$ 4,004,355</u>

Rocketown had fully depreciated assets with an original cost of approximately \$10,000 as of June 30, 2005 (\$7,000 in 2004).

ROCKETOWN OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets, consisting of contributions received or receivable, whose use is subject to time or purpose restrictions, are as follows as of June 30:

	<u>2005</u>	<u>2004</u>
Contributions for enrichment programming	\$ -	\$ 8,000
Contributions for entertainment programming	-	5,000
Contributions for technology purchases	-	1,005
Grants and contributions receivable - time restriction	<u>83,396</u>	<u>59,600</u>
Total temporarily restricted net assets	<u>\$ 83,396</u>	<u>\$ 73,605</u>

NOTE 5 - OPERATING LEASES, PURCHASE OF FACILITY AND NOTE PAYABLE

Effective May 1, 2002, Rocketown entered into a five-year operating lease for its new facility. The lease granted an option for Rocketown to purchase the real estate at any time during the lease term for \$1,320,000. Rocketown exercised the option on October 15, 2003. Total rent expense under this lease was \$23,998 for the year ended June 30, 2004 (\$-0- in 2005).

In conjunction with the purchase of the property, Rocketown 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, Rocketown signed a new one-year loan agreement, which required monthly interest payments on the outstanding principal balance. On October 1, 2005, Rocketown entered into a new loan agreement, which extended the maturity date to January 1, 2006. Interest is computed at a variable index rate equal to the published prime rate less 0.25% (6% at June 30, 2005). This loan is guaranteed by two of Rocketown's board members in the amount of \$375,000 each.

ROCKETOWN OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005 AND 2004

NOTE 6 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject Rocketown to concentrations of credit risk consist primarily of cash and investments. Rocketown maintains cash accounts with several financial institutions. Accounts at financial institutions are insured by the Federal Deposit Insurance Corporation or the Security Investors Protection Corporation up to \$100,000 or \$500,000, respectively. Balances per financial institutions in excess of applicable insurance limits were approximately \$101,000 at June 30, 2005.

Contributions from one of Rocketown's board members amounted to approximately 19% of total contributions in 2004. Two other individuals made contributions which comprised 63% of total contributions in 2004. There were no contributions from a single donor that made up more than 10% of total contributions in 2005. Rocketown was also awarded three grants from various organizations which made up 60% of total foundation contributions and grant revenue in 2005 (two grants from one organization made up 84% of such support in 2004).

NOTE 7 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2005, Rocketown purchased approximately \$9,750 in inventory from a supplier owned by a board member (\$12,500 in 2004).

While Rocketown was leasing the facility in which it operates, one of Rocketown's board members served as an agent for the lessor of the facility. When Rocketown purchased the building during 2004, this board member's company received a real estate commission on the sale.

NOTE 8 - ACCRUED PROPERTY TAXES

During 2004, Rocketown's application for exemption from property tax for the tax year beginning January 1, 2004, was denied. Rocketown has appealed the decision, but the matter has not been resolved to date. Therefore, at June 30, 2005, property tax has been recorded as an accrued expense on the accompanying statement of financial position in the amount of \$51,328 (\$14,000 as of June 30, 2004).