

**ROCKETOWN OF MIDDLE TENNESSEE  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2014 AND 2013**

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**ROCKETOWN OF MIDDLE TENNESSEE  
MANAGEMENTS' DISCUSSION AND ANALYSIS (UNAUDITED)  
YEARS ENDED JUNE 30, 2014 AND 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.

Fiscal 2014 Strategic Accomplishments

Rocketown has a board-directed strategic plan that is looking for results in the following areas: information technology infrastructure improvements, increases in grants and donor base, excellence in creative programming, and improved operational growth. We are pleased to report on these accomplishments:

1. In the area of information technology infrastructure, we have secured and implemented a new point of sale platform that serves our customers better and improves the technical hardware in our shop locations. We also began an employee leased laptop program allowing all employees to have the newest technology and reducing frustrations over antiquated systems.
2. In the area of excellence in programming, we expanded our music program, resulting in a new grant with the Country Music Association.
3. In the area of increasing grants and donor base, we overachieved budgeted public support by \$68,000. We also invested in our strategy by hiring a full time grant manager to focus on increased public support.
4. In the area of operational growth, rentals of our facility exceeded revenue goals by \$24,000.
5. Additionally, our board of directors voted to purchase the property we've been renting adjacent to Rocketown at 522 & 526 Fifth Avenue South as an additional 7,145 square feet of programming space. The purchase price was \$744,000; however current market rates estimate that it is worth between \$928,000 and \$1,300,000.

**ROCKETOWN OF MIDDLE TENNESSEE  
MANAGEMENTS' DISCUSSION AND ANALYSIS (UNAUDITED-CONTINUED)  
YEARS ENDED JUNE 30, 2014 AND 2013**

As noted in the following audit, change in net assets for the years ending June 30, 2014 and 2013 are as follows:

	<b>F2014</b>	<b>F2013</b>	
<b><u>Revenues</u></b>	<b>Jul 2013-Jun 2014</b>	<b>Jul 2012-Jun 2013</b>	<b>Change %</b>
Operational Revenues	\$ 888,205	\$ 869,095	2%
Public Support	908,569	950,077	-4%
<b>Total Revenues</b>	<b>\$ 1,796,774</b>	<b>\$ 1,819,172</b>	<b>-1%</b>
<b><u>Expenses</u></b>			
Program Services	\$ 1,336,224	\$ 973,256	41%
Supporting Services			
Management and General	296,557	457,948	-35%
Fundraising	202,536	218,978	-21%
Asset Depreciation	164,456	181,807	-10%
<b>Total Expenses</b>	<b>\$ 1,999,773</b>	<b>\$ 1,831,989</b>	<b>9%</b>
<b>Net decrease</b>	<b>\$ (202,999)</b>	<b>\$ (12,817)</b>	<b>1497%</b>
<b>Net (decrease) increase - excluding depreciation</b>	<b>\$ (38,543)</b>	<b>\$ 168,990</b>	<b>-124%</b>
<b>Net (decrease) increase in cash</b>	<b>\$ (66,206)</b>	<b>\$ 63,492</b>	<b>-204%</b>

There are several items to note in this year's financial statements as compared to prior year. The first is that Fiscal 2013 included an unexpected \$100,000 major gift that both allowed us to boast of an amazing public support income in prior year, but allowed us to save cash to reinvest into IT improvement. In Fiscal 2014, we had another year of surpassing our public support budget by \$78,000 (without the comparable \$100,000 major gift) and surpassing our operating income budget.

On the expense side, Fiscal 2014 includes allocations of shared services for insurance policies, financial services, and information technology operational budgets. We revised our procedures to include actual shared costs to be shown in their appropriate areas of usage. This had not been done in prior years, and explains why programming costs are increasing year on year and management and fundraising expenses to be decreasing year on year. Human capital is one of our biggest costs as we seek to provide a loving environment for youth to experience Christ's love. Fiscal 2013 included only a partial year of full staffing whereas Fiscal 2014 includes a full staff model for the entire year, resulting in year on year increases by 9%.

Additionally, our Organization's biggest asset is the property at 601 Fourth Avenue and now 526 Fifth Avenue, where youth come to be ministered to in a safe environment. The properties' book value is \$7,424,583, resulting in annual depreciation expense on that asset of \$128,575 with 10% 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.

**ROCKETOWN OF MIDDLE TENNESSEE  
MANAGEMENTS' DISCUSSION AND ANALYSIS (UNAUDITED-CONTINUED)  
YEARS ENDED JUNE 30, 2014 AND 2013**

What is not highlighted in the financial statements of the Organization is the properties' fair market value. As Nashville has expanded to include the new convention center and developers continue to invest in our area, property values are on the rise. Current real estate professionals estimate our \$7.4 million dollar property to be worth between \$16 million and \$23 million in today's market. Although appreciation is not measured under accounting principles generally accepted in the United States of America until a sale has occurred, it is worth noting that the appreciation of our asset is an investment in the future of Rocketown.

## **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, 2014 and 2013 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, 2014 and 2013 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.

## **INDEPENDENT AUDITORS' REPORT (CONTINUED)**

### **Other Matter**

We have audited the financial statements of Rocketown of Middle Tennessee as of and for the year ended June 30, 2014, and our report thereon dated September 30, 2014, which expressed an unmodified opinion on those financial statements, appears on page 4. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Managements' Discussion and Analysis (MD&A), which is the responsibility of management, is not a required part of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

September 30, 2014

**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2014 AND 2013**

<b>ASSETS</b>		
	<b>2014</b>	<b>2013</b>
Current Assets:		
Cash	\$ 186,631	\$ 252,837
Accounts receivable	55,802	28,006
Contributions receivable	7,350	9,150
Interest in net assets	4,937	4,937
Inventories	40,104	36,653
Deposits	<u>662</u>	<u>662</u>
Total current assets	295,486	332,245
Property and equipment, net	7,135,234	6,522,588
Endowment fund	<u>10,000</u>	<u>5,000</u>
Total assets	<u><u>\$ 7,440,720</u></u>	<u><u>\$ 6,859,833</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 44,419	\$ 26,748
Accrued expenses	27,898	40,619
Deferred revenue	70,636	47,244
Current portion of long term debt	<u>24,203</u>	<u>-</u>
Total current liabilities	167,156	114,611
Long term debt:		
Notes payable, net of current portion	<u>731,341</u>	<u>-</u>
Total liabilities	<u><u>898,497</u></u>	<u><u>114,611</u></u>
Net assets:		
Unrestricted:		
Designated for property and equipment	7,135,234	6,522,588
Undesignated	<u>(605,375)</u>	<u>183,911</u>
Total unrestricted	6,529,859	6,706,499
Temporarily restricted	2,364	33,723
Permanently restricted	<u>10,000</u>	<u>5,000</u>
Total net assets	<u><u>6,542,223</u></u>	<u><u>6,745,222</u></u>
Total liabilities and net assets	<u><u>\$ 7,440,720</u></u>	<u><u>\$ 6,859,833</u></u>

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



**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues:				
Membership dues, cover charges, session fees and lessons	\$ 226,224	\$ -	\$ -	\$ 226,224
Product revenue	334,648	-	-	334,648
Facility rentals	325,563	-	-	325,563
Other	1,770	-	-	1,770
Total operating revenues	<u>888,205</u>	<u>-</u>	<u>-</u>	<u>888,205</u>
Public support and other revenues:				
Contributions	271,636	-	5,000	276,636
Foundation contributions and grants	303,459	-	-	303,459
Special events	328,474	-	-	328,474
Net assets released in satisfaction of program restrictions	<u>31,359</u>	<u>(31,359)</u>	<u>-</u>	<u>-</u>
Total public support and other revenues	<u>934,928</u>	<u>(31,359)</u>	<u>5,000</u>	<u>908,569</u>
Total revenues	<u>1,823,133</u>	<u>(31,359)</u>	<u>5,000</u>	<u>1,796,774</u>
Functional expenses:				
Program services	1,467,789	-	-	1,467,789
Supporting services:				
Management and general	296,557	-	-	296,557
Fundraising	<u>235,427</u>	<u>-</u>	<u>-</u>	<u>235,427</u>
Total functional expenses	<u>1,999,773</u>	<u>-</u>	<u>-</u>	<u>1,999,773</u>
Net (decrease) increase in net assets	(176,640)	(31,359)	5,000	(202,999)
Net assets, beginning of year	<u>6,706,499</u>	<u>33,723</u>	<u>5,000</u>	<u>6,745,222</u>
Net assets, end of year	<u><u>\$ 6,529,859</u></u>	<u><u>\$ 2,364</u></u>	<u><u>\$ 10,000</u></u>	<u><u>\$ 6,542,223</u></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	Permanently Restricted	Total
Operating revenues:				
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	1,000	7,118	-	8,118
Total operating revenues	<u>861,977</u>	<u>7,118</u>	<u>-</u>	<u>869,095</u>
Public support and other revenues:				
Contributions	342,901	9,150	5,000	357,051
Foundation contributions and grants	247,380	-	-	247,380
Special events	345,646	-	-	345,646
Net assets released in satisfaction of program restrictions	85,931	(85,931)	-	-
Total public support and other revenues	<u>1,021,858</u>	<u>(76,781)</u>	<u>5,000</u>	<u>950,077</u>
Total revenues	<u>1,883,835</u>	<u>(69,663)</u>	<u>5,000</u>	<u>1,819,172</u>
Functional expenses:				
Program services	1,060,069	-	-	1,060,069
Supporting services:				
Management and general	552,942	-	-	552,942
Fundraising	218,978	-	-	218,978
Total functional expenses	<u>1,831,989</u>	<u>-</u>	<u>-</u>	<u>1,831,989</u>
Net increase (decrease) in net assets	51,846	(69,663)	5,000	(12,817)
Net assets, beginning of year	<u>6,654,653</u>	<u>103,386</u>	<u>-</u>	<u>6,758,039</u>
Net assets, end of year	<u>\$ 6,706,499</u>	<u>\$ 33,723</u>	<u>\$ 5,000</u>	<u>\$ 6,745,222</u>

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

**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2014**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and wages	\$ 574,451	\$ 139,111	\$ 107,930	\$ 821,492
Payroll taxes	43,722	8,977	8,449	61,148
Employee benefits	34,672	7,336	2,812	44,820
Total payroll and related expenses	652,845	155,424	119,191	927,460
Direct costs of operating revenues:				
Skatepark merchandise	126,190	-	-	126,190
Café merchandise	65,041	-	-	65,041
Entertainment	1,066	-	-	1,066
Bank fees	22	10,193	483	10,698
Design, photography and printing	809	-	-	809
Dues and subscriptions	953	2,170	2,755	5,878
Food and entertainment	23,844	4,903	6,743	35,490
Gifts	619	3,328	857	4,804
Giveaways/incentives	9,634	258	182	10,074
Insurance	54,286	-	13,572	67,858
Legal and professional	-	13,755	-	13,755
Marketing and advertising	13,478	531	1,738	15,747
Minor equipment	4,142	219	-	4,361
Miscellaneous	6,453	13,492	362	20,307
Office supplies	44	2,445	46	2,535
Outreach	275	-	-	275
Postage and freight	6,872	326	1,613	8,811
Purchased services - other	127,646	39,012	2,088	168,746
Purchased services - personnel	31,617	196	300	32,113
Rent	27,035	-	-	27,035
Repairs and maintenance	22,998	8,797	1,817	33,612
Special events	787	-	22,920	23,707
Supplies	52,578	1,430	8,688	62,696
Taxes and licenses	19,545	17,142	322	37,009
Telephone	7,793	18,906	337	27,036
Travel	9,320	136	1,116	10,572
Tuition and training	2,607	3,894	475	6,976
Utilities	67,725	-	16,931	84,656
Total functional expenses before depreciation	1,336,224	296,557	202,536	1,835,317
Depreciation of property and equipment	131,565	-	32,891	164,456
Total functional expenses	<u>\$ 1,467,789</u>	<u>\$ 296,557</u>	<u>\$ 235,427</u>	<u>\$ 1,999,773</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
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	<u>\$ 1,060,069</u>	<u>\$ 552,942</u>	<u>\$ 218,978</u>	<u>\$ 1,831,989</u>

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

**ROCKETOWN OF MIDDLE TENNESSEE  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Decrease in net assets	<u>\$ (202,999)</u>	<u>\$ (12,817)</u>
Adjustments to reconcile decrease in net assets to net cash (used) provided by operating activities:		
Depreciation	164,456	181,807
Gain on sale of property and equipment	-	(50)
(Increase) decrease in:		
Accounts receivable	(27,796)	(17,584)
Contributions receivable	1,800	(9,150)
Interest in net assets	-	74
Inventories	(3,451)	(5,632)
Increase (decrease) in:		
Accounts payable	17,671	(51,752)
Accrued expenses	(12,721)	23,317
Deferred revenue	<u>23,392</u>	<u>14,711</u>
Total adjustments	<u>163,351</u>	<u>135,741</u>
Net cash (used) provided by operating activities	<u>(39,648)</u>	<u>122,924</u>
Cash flows from investing activities:		
Proceeds from disposal of property and equipment	-	50
Purchase of property and equipment	(21,558)	(54,482)
Endowment funds invested	<u>(5,000)</u>	<u>(5,000)</u>
Net cash used by investing activities	<u>(26,558)</u>	<u>(59,432)</u>
Net (decrease) increase in cash	(66,206)	63,492
Cash, beginning of year	<u>252,837</u>	<u>189,345</u>
Cash, end of year	<u><u>\$ 186,631</u></u>	<u><u>\$ 252,837</u></u>
Non-cash investing activities:		
Building acquired with debt	<u><u>\$ 755,544</u></u>	<u><u>\$ -</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, 2014 AND 2013**

**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 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. We also operate a skate park, concert, and event venue 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 2014, 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.

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, 2014 AND 2013**

**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, 2014 AND 2013**

**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 \$851 and \$6,355 in 2014 and 2013, 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, 2014 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 2011.

Advertising

All advertising costs are expensed when incurred. There were no direct response advertising costs incurred in 2014 and 2013.

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.



**ROCKETOWN OF MIDDLE TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 2 - 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.

Reclassifications

Certain reclassifications have been made to the 2013 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

**NOTE 3 - CONTRIBUTIONS RECEIVABLE**

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

	<b>2014</b>	<b>2013</b>
Receivable in less than one year	\$ 7,350	\$ 9,150
Receivable in one to five years	-	-
	<hr/> 7,350	<hr/> 9,150
Allowance for doubtful accounts	-	-
	<hr/> \$ 7,350	<hr/> \$ 9,150
	<hr/> <hr/>	<hr/> <hr/>

**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 at June 30, 2014 and 2013. 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.

**ROCKETOWN OF MIDDLE TENNESSEE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 5 - INVENTORIES**

Inventories consist of the following as of June 30:

	<b>2014</b>	<b>2013</b>
Skatepark shop merchandise	\$ 33,188	\$ 26,832
Coffee bar merchandise	5,045	7,027
Other merchandise	<u>1,871</u>	<u>2,794</u>
	<u><u>\$ 40,104</u></u>	<u><u>\$ 36,653</u></u>

**NOTE 6 - PROPERTY AND EQUIPMENT**

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

	<b>2014</b>	<b>2013</b>
Land	\$ 2,367,032	\$ 2,367,032
Building and improvements	5,143,236	4,387,693
Machinery and equipment	643,213	621,654
Furniture and fixtures	<u>30,790</u>	<u>30,790</u>
	8,184,271	7,407,169
Less accumulated depreciation	<u>(1,049,037)</u>	<u>(884,581)</u>
	<u><u>\$ 7,135,234</u></u>	<u><u>\$ 6,522,588</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:

	<b>2014</b>	<b>2013</b>
Donor permanently restricted endowment fund	<u>\$ 10,000</u>	<u>\$ 5,000</u>

**ROCKETOWN OF MIDDLE TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 7 - ENDOWMENT FUND (CONTINUED)**

Changes in endowment net assets as of June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ -	\$ 5,000
Contributions	-	-	5,000	5,000
Investment income	-	-	-	-
Net appreciation	-	-	-	-
Amounts appropriated for expenditure	-	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,000</u>	<u>\$ 10,000</u>

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

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

**NOTE 8 - 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 3.25%. At June 30, 2014, the line's effective rate of interest was 3.25%. No line of credit borrowings occurred during the years ended June 30, 2014 or 2013, and none have occurred through the date of the independent auditors' report.

**ROCKETOWN OF MIDDLE TENNESSEE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 9 - LONG TERM DEBT**

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

**2014**

In May of 2014 the Organization borrowed \$755,544 from a financial institution. The installment note is due in monthly principal and interest payments of \$4,564 with the final payment becoming due June 2021. The note has an interest rate of 4.25%, and is collateralized by the Organization's three properties.

\$ 755,544

Less current portion

(24,203)

\$ 731,341

The principal maturities of long-term debt at June 30, 2014 are as follows:

Fiscal Year Ending June 30

2015	\$ 24,203
2016	25,252
2017	26,346
2018	27,488
2019	28,679
Thereafter	<u>623,576</u>
	<u><u>\$ 755,544</u></u>

**NOTE 10 - RESTRICTIONS ON NET ASSETS**

The temporary restrictions on net assets are as follows:

	<b>2014</b>	<b>2013</b>
Contributions receivable – time restriction	\$ -	\$ 9,150
Donations restricted for capital improvements	<u>2,364</u>	<u>24,573</u>
	<u><u>\$ 2,364</u></u>	<u><u>\$ 33,723</u></u>

As of June 30, 2014 and 2013, 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.

**ROCKETOWN OF MIDDLE TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 11 - 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 \$5,430 and \$4,700 as expense under this plan during the years ended June 30, 2014 and 2013, respectively. These amounts were included in the statements of functional expenses as employee benefits.

**NOTE 12 - LEASE COMMITMENTS**

The Organization leased property at 522 and 526 Fifth Ave. South, Nashville, Tennessee which it uses for various program and administrative activities. The rental agreement had an original term of 5 years expiring on March 31, 2015 and included an option to extend the term for another 3 years. In May of 2014 the Organization obtained a loan and purchased this property (See Note 9). Rent expense under this lease amounted to \$27,035 and \$32,280 for the years ended June 30, 2014 and 2013, respectively.

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 \$2,880 and \$1,440 for the years ending June 30, 2014 and 2013, respectively.

The minimum lease payments required under the above operating leases as of June 30, 2014 are as follows:

2015	\$ 2,880
2016	2,880
2017	2,880
2018	2,880
2019	2,160
	<hr/>
	\$ 13,680

**NOTE 13 - 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 five grants which made up approximately 71% of total foundation contributions and grants revenue for the year ended June 30, 2014. The Organization was awarded three grants which made up approximately 55% of total foundation contributions and grants revenue for the year ended June 30, 2013. One individual made contributions which comprised approximately 18% of the Organization's total contributions for the year ended June 30, 2014. Two individuals made contributions which comprised approximately 45% of the Organization's total contributions for the year ended June 30, 2013.

**ROCKETOWN OF MIDDLE TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 14 - 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, 2014 and 2013 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 15 - SUBSEQUENT EVENTS**

The Organization's management has evaluated subsequent events through September 30, 2014, the date which the financial statements were available to be issued.