

ROCK IN PREVENTION, INC.

FINANCIAL STATEMENTS

June 30, 2009 and 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rock In Prevention, Inc.

We have audited the accompanying statements of financial position of Rock In Prevention, Inc. as of June 30, 2009 and 2008 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 Rock In Prevention, Inc. as of June 30, 2009 and 2008 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.

Martens & Company, CPA, LLP

West Des Moines, Iowa
January 13, 2010

ROCK IN PREVENTION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2009 and 2008

| | | Unrestricted | |
|---------------------------------------|----|------------------|---------------------|
| | | 2009 | 2008 |
| ASSETS | | | |
| ASSETS | | | |
| Cash and cash equivalents | \$ | 81,575 | \$ 157,354 |
| Investments | | 1,047,495 | 1,581,996 |
| Prepaid expenses | | 81,443 | 58,347 |
| Property and equipment, net | | 64,026 | 46,424 |
| TOTAL ASSETS | \$ | <u>1,274,539</u> | \$ <u>1,844,121</u> |
| LIABILITIES AND NET ASSETS | | | |
| LIABILITIES | | | |
| Accounts payable and accrued expenses | \$ | 44,915 | \$ 57,807 |
| Workshop deposits | | 15,291 | 23,075 |
| Deferred income - grants/gifts | | 18,998 | - |
| TOTAL LIABILITIES | | 79,204 | 80,882 |
| NET ASSETS: | | | |
| Unrestricted - Undesignated | | 214,300 | 375,948 |
| Unrestricted - Board designated | | 981,035 | 1,387,291 |
| TOTAL NET ASSETS | | 1,195,335 | 1,763,239 |
| TOTAL LIABILITIES AND NET ASSETS | \$ | <u>1,274,539</u> | \$ <u>1,844,121</u> |

See accompanying notes to financial statements.

ROCK IN PREVENTION, INC.

STATEMENTS OF ACTIVITIES

Years ended June 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--------------------------------------|---------------------|---------------------|
| UNRESTRICTED | | |
| Support and revenue: | | |
| Contributions: | | |
| Foundations | \$ 11,400 | \$ 130,035 |
| Individuals | 80,554 | 80,069 |
| Business organizations | 111,540 | 130,174 |
| Fund raising events | <u>31,193</u> | <u>42,167</u> |
| | 234,687 | 382,445 |
| Program fees: | | |
| Workshops | 210,559 | 177,214 |
| Governmental grants | <u>-</u> | <u>21,821</u> |
| | 210,559 | 199,035 |
| Investment income (loss) | (<u>386,815</u>) | (<u>119,065</u>) |
| TOTAL SUPPORT AND REVENUE | <u>58,431</u> | <u>462,415</u> |
| Expenses: | | |
| Program services | 461,252 | 434,866 |
| Supporting services - Administration | 92,005 | 159,041 |
| Supporting services - Fundraising | <u>73,078</u> | <u>63,213</u> |
| TOTAL EXPENSES | <u>626,335</u> | <u>657,120</u> |
| CHANGE IN UNRESTRICTED NET ASSETS | (567,904) | (194,705) |
| NET ASSETS AT BEGINNING OF YEAR | <u>1,763,239</u> | <u>1,957,944</u> |
| NET ASSETS AT END OF YEAR | \$ <u>1,195,335</u> | \$ <u>1,763,239</u> |

See accompanying notes to financial statements.

ROCK IN PREVENTION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2009

| | Program Service <u>Workshops</u> | <u>Supporting Services</u> | | 2009 <u>Totals</u> |
|------------------------------|--|----------------------------|------------------------|-----------------------|
| | | <u>Administration</u> | Fund <u>Raising</u> | |
| Personnel costs: | | | | |
| Salaries and wages | \$ 157,815 | \$ 36,205 | \$ 57,369 | \$ 251,389 |
| Benefits | <u>14,099</u> | <u>5,454</u> | <u>4,741</u> | <u>24,294</u> |
| | 171,914 | 41,659 | 62,110 | 275,683 |
| Other: | | | | |
| Bank charges | - | 469 | - | 469 |
| Contributions | - | 375 | - | 375 |
| Depreciation | 10,827 | 3,105 | - | 13,932 |
| Dues and subscriptions | - | 3,051 | - | 3,051 |
| Fund raising expenses | - | - | 5,277 | 5,277 |
| Insurance | 4,046 | 1,926 | 532 | 6,504 |
| Occupancy | 14,373 | 3,946 | 958 | 19,277 |
| Postage | 3,244 | 216 | 865 | 4,325 |
| Printing | 6,854 | 403 | 806 | 8,063 |
| Professional fees | - | 30,082 | - | 30,082 |
| Promotional materials | 26,252 | - | - | 26,252 |
| Public service announcements | 60,000 | - | - | 60,000 |
| Registration/Exhibit fees | 12,422 | - | - | 12,422 |
| Seminars and training | 463 | 26 | 26 | 515 |
| Supplies | 3,284 | 659 | 240 | 4,183 |
| Compact discs | 87,519 | - | - | 87,519 |
| Telephone | 6,811 | 3,179 | 363 | 10,353 |
| Travel | 53,243 | - | 1,250 | 54,493 |
| Miscellaneous | - | <u>2,909</u> | <u>651</u> | <u>3,560</u> |
| | <u>289,338</u> | <u>50,346</u> | <u>10,968</u> | <u>350,652</u> |
| TOTALS | \$ <u>461,252</u> | \$ <u>92,005</u> | \$ <u>73,078</u> | \$ <u>626,335</u> |

See accompanying notes to financial statements.

ROCK IN PREVENTION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2008

| | Program | <u>Supporting Services</u> | | 2008 |
|------------------------------|-----------------------------|----------------------------|------------------------|-----------------------|
| | Service <u>Workshops</u> | <u>Administration</u> | Fund <u>Raising</u> | <u>Totals</u> |
| Personnel costs: | | | | |
| Salaries and wages | \$ 117,992 | \$ 89,658 | \$ 44,908 | \$ 252,558 |
| Benefits | <u>12,713</u> | <u>5,835</u> | <u>3,307</u> | <u>21,855</u> |
| | 130,705 | 95,493 | 48,215 | 274,413 |
| Other: | | | | |
| Bank charges | - | 209 | - | 209 |
| Contributions | - | 350 | - | 350 |
| Depreciation | 13,678 | 3,472 | - | 17,150 |
| Dues and subscriptions | - | 4,275 | - | 4,275 |
| Fund raising expenses | - | - | 8,969 | 8,969 |
| Insurance | 4,466 | 1,700 | - | 6,166 |
| Occupancy | 16,450 | 4,387 | 1,097 | 21,934 |
| Postage | 5,080 | 339 | 1,355 | 6,774 |
| Printing | 6,648 | 391 | 782 | 7,821 |
| Professional fees | - | 34,179 | - | 34,179 |
| Promotional materials | 44,848 | - | - | 44,848 |
| Public service announcements | 60,000 | - | - | 60,000 |
| Registration/Exhibit fees | - | 2,984 | - | 2,984 |
| Seminars and training | 511 | 92 | 12 | 615 |
| Supplies | 4,967 | 712 | 130 | 5,809 |
| Compact discs | 104,866 | - | - | 104,866 |
| Telephone | 5,737 | 3,962 | 296 | 9,995 |
| Travel | 36,910 | - | 2,357 | 39,267 |
| Miscellaneous | - | 6,496 | - | 6,496 |
| | <u>304,161</u> | <u>63,548</u> | <u>14,998</u> | <u>382,707</u> |
| TOTALS | \$ <u>434,866</u> | \$ <u>159,041</u> | \$ <u>63,213</u> | \$ <u>657,120</u> |

See accompanying notes to financial statements.

ROCK IN PREVENTION, INC.

STATEMENTS OF CASH FLOWS

Years ended June 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$(567,904) | \$(194,705) |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 13,932 | 17,150 |
| Loss on disposal of equipment | - | 3,930 |
| Unrealized loss on investments | 9,765 | 205,037 |
| Realized loss (gain) on sale of investments | 406,269 | (32,210) |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | - | 49,361 |
| Prepaid expenses | (23,096) | (35,635) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | (12,892) | 45,862 |
| Workshop deposits | (7,784) | 13,937 |
| Deferred income - grants/gifts | <u>18,998</u> | <u>(23,260)</u> |
| NET CASH PROVIDED (USED) BY OPERATIONS | (162,712) | 49,467 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (2,087,028) | (2,914,136) |
| Proceeds from sale of investments | 2,205,495 | 2,896,399 |
| Purchase of property and equipment | <u>(31,534)</u> | <u>(25,695)</u> |
| NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES | <u>86,933</u> | <u>(43,432)</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (75,779) | 6,035 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>157,354</u> | <u>151,319</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ <u>81,575</u> | \$ <u>157,354</u> |

See accompanying notes to financial statements.

ROCK IN PREVENTION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Rock In Prevention, Inc. is a nonprofit Corporation that teaches children health and wellness, personal and social skills, parental involvement, drug awareness, mentoring, character education, anger management, problem solving, violence prevention to help children improve academic achievement and live to their fullest potential. Rock uses music and the arts to reach the hearts and minds of children to help them make positive, healthy, life choices and improve school and community climate.

Support and Expenses

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, the stipulation time restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Corporation reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations which specify the length long-lived assets must be maintained, the Corporation reports expiration of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

ROCK IN PREVENTION, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributed Services, Goods, and Facilities

A substantial number of volunteers have donated many hours to the Corporation's program services and fund-raising campaigns during each of the respective years; however, the value of these hours are not reported in the financial statements since the services do not require specialized skills.

Materials and other assets received as donations are recorded at their fair values at the date of receipt.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Cash and Cash equivalents

Cash and cash equivalents consist of cash held in checking and money market accounts. At various times in the past two years, deposits have exceeded insured limits. Management believes the Corporation is not exposed to any significant credit risk on cash and cash equivalents.

Investments

Investments in equity securities with readily determinable fair values are reported at fair value in the statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the statement of activities as increases and decreases in unrestricted net assets.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the assets and computed on the straight-line method.

ROCK IN PREVENTION, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

The Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Net assets - Board designated

The Corporation has established an investment account with a brokerage company to hold certain assets. The Board of Directors has designated this account be used for the specific purpose of paying program service expenses in a future period when support and revenue from regular sources is insufficient.

NOTE 2 - INVESTMENTS

Investments as of June 30, 2009 and 2008 consist of:

| | <u>2009</u> | | <u>2008</u> | |
|------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> |
| Stocks and bonds | \$ <u>1,113,956</u> | \$ <u>1,047,495</u> | \$ <u>1,638,691</u> | \$ <u>1,581,996</u> |

Investment income (loss) for the years ended June 30, 2009 and 2008 includes the following:

| | <u>2009</u> | <u>2008</u> |
|--------------------------------|---------------------|---------------------|
| Realized gains (losses), net | \$ (406,269) | \$ 32,210 |
| Unrealized gains (losses), net | (9,765) | (205,037) |
| Dividends and interest | <u>29,219</u> | <u>53,762</u> |
| | \$ <u>(386,815)</u> | \$ <u>(119,065)</u> |

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2009 and 2008 consist of:

| | <u>2009</u> | <u>2008</u> |
|-------------------------------|------------------|------------------|
| Workshop equipment | \$ 53,937 | \$ 53,937 |
| Office equipment | 57,190 | 51,643 |
| Vehicles | <u>74,966</u> | <u>85,022</u> |
| | 186,093 | 190,602 |
| Less accumulated depreciation | <u>(122,067)</u> | <u>(144,178)</u> |
| NET PROPERTY AND EQUIPMENT | \$ <u>64,026</u> | \$ <u>46,424</u> |

ROCK IN PREVENTION, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE 4 - LEASE COMMITMENTS

The Corporation leases its office facilities under a non-cancelable operating lease, which expires July 31, 2009. The lease was extended starting September 1, 2009 for a period of three years. Rental expense for the years ended June 30, 2009 and 2008 was \$19,277 and \$21,934, respectively. Future minimum lease payments are as follows:

| | |
|---------------|----------|
| June 30, 2010 | \$ 1,623 |
|---------------|----------|

NOTE 5 - CONTRIBUTED ADVERTISING SERVICES

The Corporation recognizes contribution revenue for certain services received at the fair value of those services. Those services included Public Service Announcements (PSA) which were provided by numerous radio and television stations throughout the state of Iowa. The total value of these broadcast services were recorded at \$60,000 for 2009 and 2008.

NOTE 6 - RELATED PARTY TRANSACTIONS

Upon completion of workshops, compact disc recordings of music performed are provided to participants at no charge to reinforce the prevention message and strengthen participants' retention of skills acquired. These recordings are personally produced by the Corporation's Executive Director. This includes writing, composing, and arranging songs, recording songs onto sound tracks, completing and mixing the final song arrangements, producing a master recording and manufacturing compact discs from the master recording. During the years ended June 30, 2009 and 2008 the Executive Director was remunerated \$2.75 for each compact disc delivered during the workshops, which totaled \$87,519 and \$104,866, respectively. It has been estimated by management that the commercial production and delivery of similarly recorded music would cost the Corporation approximately \$6.50 per each compact disc.

NOTE 7 - SEVERANCE AGREEMENT

Effective May 14, 2007 the Corporation entered into an agreement with the Executive Director which formally identifies the financial obligation of the Corporation to its Executive Director in the event of an involuntary employment termination. The severance agreement provides for a termination payment equal to thirty-six months of compensation based upon the average compensation paid to the Executive Director during the preceding twelve months. Payments

ROCK IN PREVENTION, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE 7 - SEVERANCE AGREEMENT - CONTINUED

shall be paid in thirty-six monthly installments. The agreement also establishes that the Executive Director non-compete with Rock In Prevention for a period of five years.

NOTE 8 - RETIREMENT

The Corporation had a Simplified Employee Pension Plan (SEP) which provided for employees to voluntarily contribute up to the statutory limitations established by the Internal Revenue Code. Other provisions of the plan included employee eligibility after three years of employment and having attained the age of 21. The plan was terminated effective December 31, 2007 and replaced with a new retirement plan. The total amount of employee contributions were \$-0- and \$23,282 for the years ended June 30, 2009 and 2008, respectively.

Effective February 1, 2008, the Corporation adopted a new 401(k) retirement plan which provides for voluntary employee contributions, an employer matching contribution, and an annual discretionary employer contribution. Employee eligibility is based upon completion of one year of service and attaining the age of 21. Employee, employer matching, and discretionary employer contributions totaled \$8,642, \$4,627, and \$28,228, and \$2,953, \$2,039 and \$17,937, respectively for the years ended June 30, 2009 and 2008.

NOTE 9 - COMPENSATED ABSENCES

Employees of the Corporation are entitled to paid vacations and paid sick days, depending on job classification, length of service, and other factors. Employees and management have contracts or agreements with the Company that provide for compensated absences. Accrued compensated absences at June 30, 2009 and 2008 was \$7,471 and \$4,620, respectively.

NOTE 10 - CASH FLOW INFORMATION

Property and equipment that was disposed of during the year 2008 had a net book value of \$3,930.

NOTE 11 - SUBSEQUENT EVENTS

The Corporation has evaluated all subsequent events through January 13, 2010, the date the financial statements were available to be issued.