

BELCOURT YES! INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2005 AND 2004

BELCOURT YES! INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION

AND

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2005 AND 2004

CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| <u>INDEPENDENT AUDITORS' REPORT</u> | 1 |
| <u>FINANCIAL STATEMENTS</u> | |
| Statements of Financial Position..... | 2 |
| Statements of Activities | 3 |
| Statements of Cash Flows..... | 4 |
| Notes to Financial Statements..... | 5 - 9 |
| <u>ADDITIONAL INFORMATION</u> | |
| Schedules of Functional Expenses..... | 10 |



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Belcourt Yes! Inc.
Nashville, Tennessee

We have audited the accompanying statements of financial position of Belcourt Yes! Inc., a Tennessee not-for-profit corporation (the "Belcourt"), as of December 31, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Belcourt'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 Belcourt Yes! Inc. as of December 31, 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.

Our audits were performed for the purpose of forming an opinion on the above-mentioned financial statements taken as a whole. The accompanying additional information on page 10 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

KraftCPAs PLLC

Nashville, Tennessee
June 12, 2006

BELCOURT YES! INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2005 AND 2004

| | <u>2005</u> | <u>2004</u> |
|---|-------------------|-------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 69,462 | \$ 61,816 |
| Accounts receivable | 4,321 | 5,247 |
| Grants receivable | 18,938 | 4,065 |
| Inventory | 3,842 | 2,540 |
| Prepaid expenses | 4,223 | 17,814 |
| Property and equipment, net - Note 3 | <u>111,465</u> | <u>113,305</u> |
| TOTAL ASSETS | <u>\$ 212,251</u> | <u>\$ 204,787</u> |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 31,648 | \$ 38,296 |
| Future box office sales and deposits | 18,409 | 859 |
| Other current liabilities | <u>905</u> | <u>-</u> |
| TOTAL LIABILITIES | <u>50,962</u> | <u>39,155</u> |
| COMMITMENTS - Note 4 and 7 | | |
| NET ASSETS | | |
| Unrestricted | 143,841 | 124,934 |
| Temporarily restricted- Note 8 | <u>17,448</u> | <u>40,698</u> |
| TOTAL NET ASSETS | <u>161,289</u> | <u>165,632</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 212,251</u> | <u>\$ 204,787</u> |

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

BELCOURT YES! INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

| | 2005 | | |
|--|---------------------|-----------------------------------|-------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| OPERATING REVENUES | | | |
| Box office sales and facility rental income | \$ 319,321 | \$ - | \$ 319,321 |
| Concession sales | <u>124,617</u> | <u>-</u> | <u>124,617</u> |
| TOTAL OPERATING REVENUES | <u>443,938</u> | <u>-</u> | <u>443,938</u> |
| OPERATING EXPENSES | | | |
| Theatre operating costs | 467,058 | - | 467,058 |
| Concession operating costs | <u>87,849</u> | <u>-</u> | <u>87,849</u> |
| TOTAL OPERATING EXPENSES | <u>554,907</u> | <u>-</u> | <u>554,907</u> |
| LOSS FROM OPERATIONS | <u>(110,969)</u> | <u>-</u> | <u>(110,969)</u> |
| PUBLIC SUPPORT AND OTHER REVENUES | | | |
| Contributions | 44,973 | - | 44,973 |
| Grants | 67,698 | 7,300 | 74,998 |
| Fundraising events and sponsorships | 81,183 | 10,000 | 91,183 |
| Miscellaneous | (845) | - | (845) |
| Abatement of accrued interest and penalties on delinquent payroll taxes - Note 7 | - | - | - |
| Net assets released from restrictions | <u>40,550</u> | <u>(40,550)</u> | <u>-</u> |
| TOTAL PUBLIC SUPPORT AND REVENUES | <u>233,559</u> | <u>(23,250)</u> | <u>210,309</u> |
| SUPPORTING SERVICES | | | |
| Management and general | 69,636 | - | 69,636 |
| Fundraising expenses | <u>34,047</u> | <u>-</u> | <u>34,047</u> |
| TOTAL SUPPORTING SERVICES | <u>103,683</u> | <u>-</u> | <u>103,683</u> |
| CHANGE IN NET ASSETS | 18,907 | (23,250) | (4,343) |
| NET ASSETS - BEGINNING OF YEAR | <u>124,934</u> | <u>40,698</u> | <u>165,632</u> |
| NET ASSETS - END OF YEAR | <u>\$ 143,841</u> | <u>\$ 17,448</u> | <u>\$ 161,289</u> |

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

2004

| <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------|-----------------------------------|-------------------|
| \$ 307,336 | \$ - | \$ 307,336 |
| <u>144,868</u> | <u>-</u> | <u>144,868</u> |
| 452,204 | - | 452,204 |
| 456,726 | - | 456,726 |
| <u>91,478</u> | <u>-</u> | <u>91,478</u> |
| 548,204 | - | 548,204 |
| <u>(96,000)</u> | <u>-</u> | <u>(96,000)</u> |
| 118,335 | - | 118,335 |
| 27,300 | 35,500 | 62,800 |
| 136,782 | 10,000 | 146,782 |
| 299 | - | 299 |
| 41,216 | - | 41,216 |
| <u>4,802</u> | <u>(4,802)</u> | <u>-</u> |
| <u>328,734</u> | <u>40,698</u> | <u>369,432</u> |
| 47,276 | - | 47,276 |
| <u>76,427</u> | <u>-</u> | <u>76,427</u> |
| <u>123,703</u> | <u>-</u> | <u>123,703</u> |
| 109,031 | 40,698 | 149,729 |
| <u>15,903</u> | <u>-</u> | <u>15,903</u> |
| <u>\$ 124,934</u> | <u>\$ 40,698</u> | <u>\$ 165,632</u> |

BELCOURT YES! INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

| | <u>2005</u> | <u>2004</u> |
|---|------------------|------------------|
| OPERATING ACTIVITIES | | |
| Change in net assets | \$ (4,343) | \$ 149,729 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 20,672 | 20,070 |
| Loss on disposal of property and equipment | - | 100 |
| Debt forgiveness reported as contribution revenue - Note 5 | - | (10,000) |
| (Increase) decrease in: | | |
| Accounts receivable | 926 | (1,634) |
| Grants receivable | (14,873) | (4,065) |
| Inventory | (1,302) | (1,082) |
| Prepaid expenses | 13,591 | (1,931) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | (6,648) | (29,792) |
| Accrued payroll taxes | - | (30,638) |
| Accrued interest and penalties on delinquent payroll taxes | - | (53,152) |
| Future box office sales and deposits | 17,550 | (368) |
| Other current liabilities | <u>905</u> | <u>-</u> |
| TOTAL ADJUSTMENTS | <u>30,821</u> | <u>(112,492)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>26,478</u> | <u>37,237</u> |
| NET CASH USED IN INVESTING ACTIVITIES | | |
| Purchases of property and equipment | <u>(18,832)</u> | <u>(15,229)</u> |
| INCREASE IN CASH AND CASH EQUIVALENTS | 7,646 | 22,008 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>61,816</u> | <u>39,808</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 69,462</u> | <u>\$ 61,816</u> |

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

BELCOURT YES! INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

NOTE 1 - GENERAL

Belcourt Yes! Inc. (the "Belcourt") is a Tennessee not-for-profit corporation chartered in February 1999. The Belcourt was organized to preserve and operate the Belcourt Theatre, built in 1925, in its historical role as a home for film, theatre, music and community events. The Belcourt receives operating revenues from ticket sales, facility rentals and membership fees, and public support funding from state and local government grants, foundation and private contributions, and special events.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present the financial position and operations of Belcourt Yes! Inc. in conformity with accounting principles generally accepted in the United States of America.

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 period in which the contribution is received, the support is reported as unrestricted.

The Belcourt reports gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used, or cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of checking account balances.

BELCOURT YES! INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005 AND 2004

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 reporting period. Actual results could differ from those estimates.

Inventory

Inventory is reported in the accompanying statement of financial position at cost. Inventory consists of concession items including candy, popcorn, soft drinks, alcoholic beverages, and miscellaneous other items.

Property and Equipment

Property and equipment are stated at acquisition cost, or at estimated fair value at the time of the gift if donated. Depreciation is calculated by the straight-line method to allocate the cost of depreciable assets, as so determined, to operations over estimated useful lives of five to ten years for equipment and furniture and fifteen years for leasehold improvements.

In-Kind Contributions

Donated facilities and materials are recorded as gifts in the period received at 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 the Belcourt 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 the Belcourt 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.

Grant Revenues

Grants are recognized as revenue in the period a liability is incurred for eligible expenditures under the terms of the grant. Grant funds received prior to expenditure are recorded initially as a liability and recognized as revenue in the period the conditions for recognition are met.

BELCOURT YES! INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005 AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

The following functional expense classifications are included in the accompanying financial statements:

Program services - includes the operation of two separate theatres with a total seating capacity of approximately 750. Activities surrounding the theatres include providing films, an entertainment venue, and rental of the facility for lecture series, meetings, seminars and other events. There is a focus to serve the Latin-American, Indian and other under-served local communities.

Supporting services

Management and general - relates to the overall direction of the organization. These expenses are not identifiable with a particular program or event or with fundraising, but are indispensable to the conduct of those activities and are essential to the organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, and other administrative activities.

Fundraising - relates to 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.

Income Taxes

The Belcourt is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. Accordingly, federal income taxes are not provided for in the accompanying financial statements.

Reclassification

Certain prior year amounts have been reclassified in order to be comparative with the current year presentation

BELCOURT YES! INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005 AND 2004

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

| | <u>2005</u> | <u>2004</u> |
|--------------------------------|-------------------|-------------------|
| Leasehold improvements | \$ 102,791 | \$ 84,702 |
| Equipment: | | |
| Theatre | 73,940 | 73,522 |
| Concession | 13,703 | 13,379 |
| Office | 13,298 | 13,297 |
| Furniture and fixtures | <u>725</u> | <u>725</u> |
| | 204,457 | 185,625 |
| Less: accumulated depreciation | <u>(92,992)</u> | <u>(72,320)</u> |
| | <u>\$ 111,465</u> | <u>\$ 113,305</u> |

Depreciation expense amounts to: 2005 - \$20,672; 2004 - \$20,070.

NOTE 4 - LEASES

In October 2003, the facility was sold to a former member of the Board of Directors of the Belcourt, and the former lease was terminated. A new noncancelable lease was executed which requires monthly payments of \$6,000 through October 31, 2008. Future minimum lease payments required each year under the lease agreement are as follows: \$72,000 per annum through 2007, and \$60,000 in 2008 (total of \$204,000).

The lease also requires the Belcourt to purchase a 7.14% ownership interest in the property by the end of the lease term for \$100,000, payable in four consecutive quarterly payments of \$10,000 each, followed by four consecutive quarterly payments of \$15,000 each, beginning January 31, 2007, and continuing through October 31, 2008. In addition, the Belcourt has the right to purchase the property, at any time during the lease term, for the sum of (i) \$1,400,000; plus (ii) all out-of-pocket expenses incurred by the owner in acquiring the property; plus (iii) the cost of any subsequent improvements made to the property by the owner; less (iv) any payments already made by the Belcourt to acquire an ownership interest in the property.

Total rent expense recognized for the facility amounted to \$72,000 each year in 2005 and 2004.

Short-term operating leases for certain equipment were not significant in 2005 or 2004.

BELCOURT YES! INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005 AND 2004

NOTE 5 - NOTE PAYABLE

In September 2003, \$10,000 was loaned to the Belcourt by an individual, with no specified payment terms. At December 31, 2003, the loan was reported as a liability in the Statement of Financial Position. In March 2004, the individual forgave the loan, and this amount was recognized as a contribution in 2004.

NOTE 6 - CONCENTRATIONS OF RISK

Cash is maintained with financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per depositor. During 2005, the Belcourt received approximately 30% of its public support and other revenues from two donors (23% from two donors in 2004).

NOTE 7 - ACCRUED PAYROLL TAXES, PENALTIES AND INTEREST

Due to cash flow shortfalls in 2001 and 2002, the Belcourt was unable to remit employee tax withheld and the related employer's share of payroll taxes. During 2003, the Belcourt remitted the employee portion of the liability and, in 2004, remitted the employer's share of the delinquent payroll taxes and applicable interest. In November 2004, the Belcourt entered into an agreement with the Internal Revenue Service to abate the remaining accrued penalty and interest subject to the Belcourt remaining current on all payroll tax liabilities for the next ten years (November 2014). Accordingly, the remaining accrued interest and penalties, in the amount of \$41,216, were reversed and taken into income in 2004. This amount is now considered a contingent liability of the Belcourt, since it will not be assessed as long as future payroll tax liabilities are paid timely.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of December 31:

| | <u>2005</u> | <u>2004</u> |
|------------------------------------|------------------|------------------|
| Research project on Grand Ole Opry | \$ 5,198 | \$ 5,198 |
| Children's programs | 2,250 | 5,500 |
| New boiler for the facility | - | 20,000 |
| Fundraising event in 2005 | - | 10,000 |
| Fundraising event in 2006 | <u>10,000</u> | <u>-</u> |
| | <u>\$ 17,448</u> | <u>\$ 40,698</u> |

ADDITIONAL INFORMATION

BELCOURT YES! INC.

SCHEDULES OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

| | 2005 | | | | |
|---|-------------------------------|----------------------------------|------------------------------|-------------------|-------------------|
| | PROGRAM SERVICES | | SUPPORTING SERVICES | | |
| | THEATRE OPERATING COSTS | CONCESSION OPERATING COSTS | MANAGEMENT AND GENERAL | FUND - RAISING | TOTAL |
| Salaries, payroll taxes, and employee benefits | \$ 164,535 | \$ 35,256 | \$ 44,505 | \$ 10,080 | \$ 254,376 |
| Contract labor | 2,908 | - | - | 2,740 | 5,648 |
| Advertising and marketing | 15,712 | - | - | 2,205 | 17,917 |
| Artists fees | - | - | - | - | - |
| Bad debt | 967 | - | - | - | 967 |
| Bank charges and credit card fees | 9,137 | 2,436 | - | 609 | 12,182 |
| Beer, popcorn, water, soda, wine, liquor, etc. | - | 47,857 | - | - | 47,857 |
| Box office expenses | 7,490 | - | - | - | 7,490 |
| Depreciation | 16,871 | 1,081 | 2,720 | - | 20,672 |
| Equipment rental | 645 | - | - | 4,027 | 4,672 |
| Equipment repairs | 4,658 | 658 | 129 | 40 | 5,485 |
| Facilities upkeep | 10,779 | - | - | 295 | 11,074 |
| Film distribution fees | 75,597 | - | - | 450 | 76,047 |
| Food and beverage | 1,750 | - | - | 1,071 | 2,821 |
| Insurance | 19,634 | 100 | 2,181 | - | 21,915 |
| Interest | - | - | - | - | - |
| Licenses and permits | 132 | 461 | - | 1,882 | 2,475 |
| Management fees | - | - | - | - | - |
| Miscellaneous | 611 | - | 2,006 | 1,605 | 4,222 |
| Professional fees | - | - | 10,617 | - | 10,617 |
| Rent | 70,560 | - | 720 | 720 | 72,000 |
| Supplies, printing and postage | - | - | 5,292 | 8,323 | 13,615 |
| Taxes | 24,663 | - | - | - | 24,663 |
| Travel and entertainment | 907 | - | 660 | - | 1,567 |
| Utilities | 39,502 | - | 806 | - | 40,308 |
| | <u>\$ 467,058</u> | <u>\$ 87,849</u> | <u>\$ 69,636</u> | <u>\$ 34,047</u> | <u>\$ 658,590</u> |
| Total | <u>\$ 467,058</u> | <u>\$ 87,849</u> | <u>\$ 69,636</u> | <u>\$ 34,047</u> | <u>\$ 658,590</u> |

2004

| PROGRAM SERVICES | | SUPPORTING SERVICES | | | TOTAL |
|-------------------------------|----------------------------------|------------------------------|-------------------|-------------------|-------|
| THEATRE OPERATING COSTS | CONCESSION OPERATING COSTS | MANAGEMENT AND GENERAL | FUND - RAISING | | |
| \$ 170,024 | \$ 34,821 | \$ 25,455 | \$ 9,487 | \$ 239,787 | |
| 1,317 | - | - | 8,644 | 9,961 | |
| 11,780 | - | - | 8,066 | 19,846 | |
| - | - | - | 20,615 | 20,615 | |
| - | - | - | - | - | |
| 10,584 | 588 | - | 588 | 11,760 | |
| - | 51,881 | - | - | 51,881 | |
| - | - | - | - | - | |
| 13,045 | 2,810 | 2,007 | 2,208 | 20,070 | |
| 1,225 | - | - | 9,322 | 10,547 | |
| 5,188 | 408 | 607 | - | 6,203 | |
| 10,416 | - | - | 352 | 10,768 | |
| 90,779 | - | - | 1,046 | 91,825 | |
| 364 | - | - | 2,341 | 2,705 | |
| 17,032 | - | 710 | - | 17,742 | |
| - | - | 250 | - | 250 | |
| 332 | 910 | 150 | 726 | 2,118 | |
| - | - | 214 | - | 214 | |
| 276 | 60 | 2,388 | 1,437 | 4,161 | |
| - | - | 6,652 | - | 6,652 | |
| 70,560 | - | 720 | 720 | 72,000 | |
| - | - | 5,533 | 10,875 | 16,408 | |
| 15,572 | - | - | - | 15,572 | |
| - | - | 2,204 | - | 2,204 | |
| 38,232 | - | 386 | - | 38,618 | |
| <u>\$ 456,726</u> | <u>\$ 91,478</u> | <u>\$ 47,276</u> | <u>\$ 76,427</u> | <u>\$ 671,907</u> | |