

ROXY PRODUCTIONS, INC.
AUDITED FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2008 AND 2007

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Roxy Productions, Inc.
Clarksville, Tennessee

We have audited the accompanying statements of financial position of Roxy Productions, Inc. (Roxy) as of August 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Roxy'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 in the first paragraph present fairly, in all material respects, the financial position of the Roxy Productions, Inc. as of August 31, 2008 and 2007, 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.

Stone Rudolph & Henry, PLC

December 31, 2008

ROXY PRODUCTIONS, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2008 AND 2007

ASSETS

	<u>2008</u>	<u>2007</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents		
Unrestricted	\$ 6,068	\$ 11,241
Temporary Restricted	12,355	7,855
Accounts Receivable	-	1,000
Contributions Receivable	16,666	15,833
Total Current Assets	<u>35,089</u>	<u>35,929</u>
<u>PROPERTY AND EQUIPMENT</u>		
Land	55,770	55,770
Building	137,876	137,876
Equipment	62,312	62,312
Improvements	75,689	58,844
Total Property and Equipment	<u>331,647</u>	<u>314,802</u>
Less: Accumulated Depreciation	131,657	120,262
Net Property and Equipment	<u>199,990</u>	<u>194,540</u>
 Total Assets	 <u>\$ 235,079</u>	 <u>\$ 230,469</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 10,560	\$ 6,615
Line of Credit	24,802	30,696
Current Portion of Long-Term Debt	6,733	6,211
Total Current Liabilities	<u>42,095</u>	<u>43,522</u>
<u>LONG-TERM LIABILITIES</u>		
Notes Payable	152,240	158,608
Total Liabilities	<u>194,335</u>	<u>202,130</u>
<u>NET ASSETS</u>		
Unrestricted	28,389	20,484
Temporarily Restricted	12,355	7,855
Total Net Assets	<u>40,744</u>	<u>28,339</u>
 Total Liabilities and Net Assets	 <u>\$ 235,079</u>	 <u>\$ 230,469</u>

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

ROXY PRODUCTIONS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>UNRESTRICTED NET ASSETS</u>		
Revenue		
Admissions	\$ 325,116✓	\$ 234,112
Contributions	152,532	183,730
Grants	43,890	38,667
Advertising Space	5,141✓	5,600
Other	6,897	5,390
Interest	84✓	282
Net Assets Released From Restriction	4,350	-
Total Unrestricted Revenue	<u>538,010</u>	<u>467,781</u>
Expenses		
Program		
Actor's Housing	28,933✓	23,248
Development	-	2,874
Dues	4,611✓	1,143
Production	199,306✓	202,141
Royalties	34,317✓	29,116
Total Program Expense	<u>267,167</u>	<u>258,522</u>
Management and General		
Advertising	60,478	80,076
Bank Fees	957	3,508
Depreciation	11,395	11,446
Insurance	16,930	12,543
Interest	14,793	12,729
Janitorial	3,138	2,475
Maintenance	2,705	6,416
Office	6,813	7,846
Other	14,131	9,163
Payroll Taxes	5,846	6,088
Postage	3,436	3,121
Professional Services	9,530✓	11,570
Salaries	76,437✓	79,579
Travel	800	3,040
Utilities	27,070	22,115
Total Management and General Expense	<u>254,459</u>	<u>271,715</u>

ROXY PRODUCTIONS, INC.
STATEMENTS OF ACTIVITIES (CONTINUED)
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Fundraising	<u>8,479</u>	<u>7,186</u>
Total Expenses	<u>530,105</u>	<u>537,423</u>
Net Increase (Decrease) in Unrestricted Net Assets	<u>7,905</u>	<u>(69,642)</u>
<u>TEMPORARILY RESTRICTED NET ASSETS</u>		
Building Fund Contributions	8,850	7,855
Net Assets Released From Restriction	<u>(4,350)</u>	<u>-</u>
Net Increase in Temporarily Restricted Net Assets	4,500	7,855
<u>CHANGE IN NET ASSETS</u>	12,405	(61,787)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>28,339</u>	<u>90,126</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 40,744</u>	<u>\$ 28,339</u>

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

ROXY PRODUCTIONS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 12,405	\$ (61,787)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	11,395	11,446
Changes in:		
Accounts Receivable	1,000	(500)
Contributions Receivable	(833)	89,827
Accounts Payable	3,945	(21,723)
Net cash provided by operating activities	<u>27,912</u>	<u>17,263</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of Leasehold Improvements	<u>(16,845)</u>	<u>(5,050)</u>
Net cash used in investing activities	<u>(16,845)</u>	<u>(5,050)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from Note Payable	42,000	139,314
Repayment of Note Payable	(53,740)	(163,154)
Net cash used in financing activities	<u>(11,740)</u>	<u>(23,840)</u>
<u>NET DECREASE IN CASH AND CASH EQUIVALENTS</u>	(673)	(11,627)
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>19,096</u>	<u>30,723</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 18,423</u>	<u>\$ 19,096</u>

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

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

a. Organization and Nature of Activities

Roxy Productions, Inc. (Roxy), a non-profit organization, was granted a charter from the State of Tennessee on August 12, 1985. The Roxy's objective is to produce live plays and other entertainment for the social and educational benefit of Clarksville, Montgomery County and the surrounding areas. The Roxy's operations are controlled by a board of directors.

b. 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 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 and those variances could be material to the financial statements.

c. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The Roxy utilizes the accrual basis of accounting which recognizes revenues when earned and expenses when incurred.

The Financial Accounting Standards Board (FASB) has established standards concerning contributions and financial statement presentation applicable to non-governmental not-for-profit organizations such as the Roxy. These standards require that unconditional promises to give (pledges) be recorded as receivables and revenues and require the organization to distinguish among contributions received for each net asset category in accordance with donor-imposed restrictions. A description of the three net asset categories follows.

(1) Unrestricted

Contributions are recorded as unrestricted revenue if that gift will be spent within the operating cycle or other expenses will be incurred which satisfy the restrictions (if any) of the gift.

(2) Temporarily Restricted

Gifts and pledges for which donor-imposed restrictions have not been met at the statement date are considered temporarily restricted. The Roxy had \$12,355 and \$7,855 in temporarily restricted net assets at August 31, 2008 and 2007.

(3) Permanently Restricted

Gifts and pledges which require by donor restriction that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions are considered permanently restricted. The Roxy had no permanently restricted net assets at August 31, 2008 and 2007.

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

d. Concentrations of Credit Risk

Financial instruments that are potentially subject to significant concentrations of credit risk consist principally of cash and contributions receivable. The maximum loss due to credit risk is \$16,666 at August 31, 2008. The Roxy places its cash with federally-insured financial institutions.

e. Cash and Cash Equivalents

The Roxy considers all highly-liquid debt instruments purchased with maturities of 90 days or less to be cash equivalents.

f. Contributions Receivable

Contributions receivable consist of amounts receivable from the City of Clarksville. The Roxy does not solicit pledges. Other contributions are recorded as received. Contributions receivable are not evidenced by any form of collateral. There is no allowance for uncollectible receivables at August 31, 2008.

g. Property and Equipment

Property and equipment, including leasehold improvements, are recorded at historical cost or, if contributed, at estimated fair value at the date of receipt. Property and equipment acquired with a unit cost of \$500 or greater and a useful life of more than one year are capitalized. Expenditures for additions, major renovations and improvements are capitalized while those for maintenance and repairs are charged to expense as incurred. Capitalized assets are depreciated over their estimated useful life using the straight line method.

h. Accrued Compensated Absences

There are no personnel policies that allow for annual leave. Therefore compensated absences are not accrued.

i. Donated Services

The Roxy has a number of volunteers which have donated their time during the year. However, these donated services have not been reflected in these financial statements as revenues or expenses due to the complexity involved in placing a value on the services.

j. In-Kind Donations

The Roxy also receives in-kind donations. Included in the statement of activities is \$49,627 and \$73,106 in revenue and expense for advertising services received from a local newspaper for the years ended August 31, 2008 and 2007, respectively. Also included in the statement of activities is \$12,015 and \$12,638 in revenue and expense for the housing of actors while performing at the Roxy by a local hotel for the years ended August 31, 2008, and August 31, 2007, respectively.

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

k. Income Tax Status

The Roxy is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

k. Change in Presentation

Certain items in prior year financial statements have been reclassified to conform to current year presentation.

2. Cash and Cash Equivalents

At August 31, 2008 and 2007, cash and cash equivalents was represented by bank deposits of \$26,690 and \$20,096, respectively, all of which was covered by FDIC insurance.

3. Long-Term and Other Debt

Long-term and other debt consists of the following:

	<u>August 31,</u>	
	<u>2008</u>	<u>2007</u>
<u>Long-Term Debt</u>		
Note payable to bank, secured by land and building, refinanced in March 2007, payable in 36 monthly installments of \$1,613, and 144 monthly installments of payments of \$1,804 with interest accruing at a variable rate of 2.0% above the prime rate which may change every three years. The first rate change is possible June 2010. The rate at August 31, 2008 is 8.0%.	\$ 158,973	\$ 164,819
Total Notes Payable	158,973	164,819
Less : Current Portion	<u>6,733</u>	<u>6,211</u>
Total Long-Term Portion of Notes Payable	<u>\$ 152,240</u>	<u>\$ 158,608</u>

Future payments on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>
2009	6,733	12,618
2010	6,819	13,490
2011	6,803	14,845
2012	7,549	14,099
2013	8,377	13,271
2014-2018	57,860	50,380
2019-2022	<u>64,832</u>	<u>13,105</u>
	<u>\$ 158,973</u>	<u>\$ 131,808</u>

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)

3. Long-Term and Other Debt (Cont'd)

Long-Term Debt (cont'd)

Cash payments for interest were \$14,793 and \$12,729 for the years ended August 31, 2008 and 2007, respectively.

Other Debt

On August 21, 2007, the Roxy obtained a \$51,000 interest only line of credit at F&M Bank secured by the theater building. Interest is calculated on a variable rate equal to the Wall Street Journal Prime Rate. At August 31, 2008, the interest rate was 5.5%. In September 2008, the note was renegotiated to 23 payments of accrued monthly interest beginning October 3, 2008. A final payment plus all accrued interest remaining is due and payable September 3, 2008. As of August 31, 2010 the balance outstanding was \$24,802.

4. Support

The Roxy received funding from the City of Clarksville totaling \$20,000 and \$19,000 for years ended August 31, 2008 and 2007, respectively.

5. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the design and construction of a new theater building. During the year ended August 31, 2008, net assets of \$4,350 were released from donor restrictions by incurring expenses satisfying the purpose specified by donors.

6. Contingencies

The Roxy's exposure to property loss and general liability is handled through the purchase of commercial insurance. Insurance coverage was adequate to cover settlements for the past three fiscal years.

7. Land Purchase Option

During the fiscal year ending August 31, 2007, the Roxy purchased an option from the City of Clarksville, Tennessee, to purchase unimproved real estate located adjacent to the theater. The option was purchased for \$100. This option is contingent upon providing proof of deposits with a financial institution holding of at least five million dollars and two other minor contingencies. This option expires June 1, 2009.