

ROXY PRODUCTIONS, INC.
AUDITED FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2006 AND 2005

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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, 2006 and 2005, 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.

Except as discussed in the following paragraph, 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.

Due to inadequacies in the Roxy's accounting records, we were unable to audit the amount of admission revenues in the August 31, 2005 financial statements. We were also unable to review minutes of all of the meetings of the board of directors because they were not available for the year ended August 31, 2005. Due to these limitations, we were unable to satisfy ourselves about admission revenue and board of director actions for the year ended August 31, 2005.

In our opinion, except for the effects on the 2005 financial statements of such adjustments, if any, as might have been determined had admission revenues been susceptible to satisfactory audit tests and had we been able to satisfy ourselves about actions of the board, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Roxy as of August 31, 2006 and 2005, 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

January 10, 2007

ROXY PRODUCTIONS, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2006 AND 2005

ASSETS

	<u>2006</u>	<u>2005</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 30,723	\$ 8,081
Accounts Receivable	500	-
Contributions Receivable	105,660	15,833
Total Current Assets	<u>136,883</u>	<u>23,914</u>
 <u>PROPERTY AND EQUIPMENT</u>		
Land	30,265	30,265
Building	137,876	137,876
Equipment	62,312	62,312
Improvements	53,794	11,932
Total Property and Equipment	<u>284,247</u>	<u>242,385</u>
Less: Accumulated Depreciation	<u>108,816</u>	<u>102,566</u>
Net Property and Equipment	<u>175,431</u>	<u>139,819</u>
 Total Assets	 <u>\$ 312,314</u>	 <u>\$ 163,733</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 28,338	\$ -
Notes Payable	50,000	-
Current Portion of Long-Term Debt	5,869	5,412
Total Current Liabilities	<u>84,207</u>	<u>5,412</u>
 <u>LONG-TERM LIABILITIES</u>		
Notes Payable	137,981	141,687
Total Liabilities	<u>222,188</u>	<u>147,099</u>
 <u>NET ASSETS</u>		
Unrestricted	90,126	16,634
Total Net Assets	<u>90,126</u>	<u>16,634</u>
 Total Liabilities and Net Assets	 <u>\$ 312,314</u>	 <u>\$ 163,733</u>

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

ROXY PRODUCTIONS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>UNRESTRICTED NET ASSETS</u>		
Revenue		
Admissions	\$ 238,884	\$ 201,197
Contributions	203,072	130,757
Grants	24,698	3,200
Advertising Space	3,550	2,670
Other	-	350
Interest	76	64
Total Unrestricted Revenue	<u>470,280</u>	<u>338,238</u>
Expenses		
Program		
Actor's Housing	7,049	6,352
Development	-	3,025
Dues	396	732
Production	144,484	138,435
Royalties	30,627	23,803
Total Program Expense	<u>182,556</u>	<u>172,347</u>
Management and General		
Advertising	46,780	40,620
Bank Fees	2,638	458
Depreciation	6,250	7,264
Insurance	10,107	10,256
Interest	14,440	7,111
Janitorial	2,475	2,475
Maintenance	9,148	3,090
Office	6,531	9,521
Other	1,529	437
Payroll Taxes	5,556	5,645
Postage	2,095	1,724
Professional Services	9,115	-
Salaries	72,631	71,899
Taxes	-	867
Travel	1,875	1,315
Utilities	19,715	18,643
Total Management and General Expense	<u>210,885</u>	<u>181,325</u>
Fundraising	<u>3,347</u>	<u>4,689</u>
Total Expenses	<u>396,788</u>	<u>358,361</u>
<u>CHANGE IN NET ASSETS</u>	73,492	(20,123)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>16,634</u>	<u>36,757</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 90,126</u>	<u>\$ 16,634</u>

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

ROXY PRODUCTIONS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 73,492	\$ (20,123)
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	6,250	7,264
Interest income	(76)	(64)
Changes in:		
Accounts Receivable	(500)	-
Contributions Receivable	(89,827)	-
Accounts payable	28,338	(27,978)
Net cash provided by (used in) operating activities	<u>17,677</u>	<u>(40,901)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of Leasehold Improvements	(41,863)	-
Interest received	76	64
Net cash provided by (used in) investing activities	<u>(41,787)</u>	<u>64</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from note payable	50,000	36,563
Repayment of note payable	(3,248)	(2,000)
Net cash provided by financing activities	<u>46,752</u>	<u>34,563</u>
<u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	22,642	(6,274)
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>8,081</u>	<u>14,355</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 30,723</u>	<u>\$ 8,081</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 or 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 no temporarily restricted net assets at August 31, 2006 and 2005.

(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, 2006 and 2005.

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. 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 and from a decedent's estate. The Roxy doesn't solicit pledges, other contributions are recorded as received. Contributions receivable are not evidenced by any form of collateral. The estate contribution was received in October 2006.

g. Property and Equipment

Property and equipment, including leasehold improvements, are recorded at historical cost or, if contributed, at estimated fair values 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 other donations. Included in the statement of activities is \$44,505 and \$40,620 in revenue and expense for advertising services received from a local newspaper for the years ended August 31, 2006 and 2005, respectively.

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.

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

2. Cash and Cash Equivalents

At August 31, 2006 and 2005, cash and cash equivalents was represented by bank deposits of \$35,641 and \$13,534, 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>2006</u>	<u>2005</u>
<u>Long-Term Debt</u>		
Note payable to bank, secured by land and building, due in monthly installments of \$1,444, 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 2008. The rate at August 31, 2006 is 8.0%.	\$ 143,850	\$ 147,099
Total Notes Payable	143,850	147,099
Less : Current Portion	<u>5,869</u>	<u>5,412</u>
Total Long-Term Portion of Notes Payable	<u>\$ 137,981</u>	<u>\$ 141,687</u>

Future payments on long-term debt are as follows:

2007	\$ 5,869
2008	6,364
2009	6,901
2010	7,483
2011	8,109
After 2011	<u>109,124</u>
	<u>\$ 143,850</u>

Cash payments for interest were \$14,440 and \$7,111 for the years ended August 31, 2006 and 2005, respectively.

Other Debt

On June 30, 2006 the Roxy obtained an unsecured \$50,000 note at F & M Bank to purchase seats for the theater. The note requires 11 payments of accrued monthly interest beginning July 31, 2006. Interest will be calculated on a variable rate equal to the Wall Street Journal Prime Rate, with an initial rate of 8.25%. A final payment plus all accrued interest remaining is due and payable June 30, 2007.

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

4. Support

The Roxy received funding from the City of Clarksville totaling \$19,000 for years ended August 31, 2006 and 2005.

5. 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.

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

3. Property and Equipment

A summary of changes in property and equipment are as follows:

	Balance September 1, 2004	Additions	Deletions	Balance August 31, 2005
Land	\$ 30,265	\$ - 0 -	\$ - 0 -	\$ 30,265
Building	137,876	- 0 -	- 0 -	137,876
Equipment	62,312	- 0 -	- 0 -	62,312
Improvements	11,932	- 0 -	- 0 -	11,932
Total	<u>\$ 242,385</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 242,385</u>
Accumulated Depreciation	<u>\$ 95,302</u>	<u>\$ 7,264</u>	<u>\$ - 0 -</u>	<u>\$ 102,566</u>

4. Long-Term and Other Debt

During the year ended August 31, 2005, the Roxy refinanced existing notes with a note payable to bank, secured by land and building, due in monthly installments of \$1,444, 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 2008. The rate is currently at 8%. The balance owed at August 31, 2005 was \$147,099.

Future payments on long-term debt are as follows:

2006	\$ 5,412
2007	5,869
2008	6,364
2009	6,901
2010	7,483
After 2010	<u>11 5,070</u>
	<u>\$147,099</u>

Cash payments for interest were \$7,111 for the year ended August 31, 2005.

5. Support

The Roxy received funding from the City of Clarksville totaling \$19,000 for the year ended August 31, 2005.

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.

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. 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 doesn't solicit pledges, other contributions are recorded as received.

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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 other donations. Included in the statement of activities is \$40,620 in revenue and expense for advertising services received from a local newspaper.

2. Cash and Cash Equivalents

At August 31, 2005, cash and cash equivalents was represented by bank deposits of \$13,534, all of which was covered by FDIC insurance.

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 or 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.

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.

b. Use of Estimates

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(2) Temporarily Restricted

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(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 the statement date.

ROXY PRODUCTIONS, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED AUGUST 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (20,123)
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Depreciation	7,264
Interest income	(64)
Changes in:	
Accounts payable	(27,978)
Net cash used in operating activities	<u>(40,901)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>64</u>
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CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from note payable	36,563
Repayment of note payable	(2,000)
Net cash provided by operating activities	<u>34,563</u>

NET INCREASE (DECREASE) IN
CASH AND CASH EQUIVALENTS

(6,274)

CASH AND CASH EQUIVALENTS - BEGINNING

14,355

CASH AND CASH EQUIVALENTS - ENDING

\$ 8,081

See accompanying notes and auditor's report.

ROXY PRODUCTIONS, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2005

CHANGES IN UNRESTRICTED ASSETS

Revenue	
Admissions	\$ 201,197
Advertising space	2,670
Donations	130,757
Grants	3,200
Other	350
Interest	64
Total unrestricted revenue	<u>338,238</u>
Expenses	
Program	
Actor's housing	6,352
Development	3,025
Dues	732
Production	138,435
Royalties	23,803
Total programs	<u>172,347</u>
Management and general	
Advertising	40,620
Bank fees	458
Depreciation	7,264
Insurance	10,256
Interest	7,111
Janitorial	2,475
Maintenance	3,090
Postage	1,724
Office	9,521
Other	437
Payroll taxes	5,645
Salaries	71,899
Taxes	867
Travel	1,315
Utilities	18,643
Total management and general	<u>181,325</u>
Fundraising	<u>4,689</u>
Total expenses	<u>358,361</u>
<u>CHANGE IN NET ASSETS</u>	(20,123)
<u>NET ASSETS AT BEGINNING OF YEAR</u>	<u>36,757</u>
<u>NET ASSETS AT END OF YEAR</u>	<u>\$ 16,634</u>

See accompanying notes and auditor's report.

ROXY PRODUCTIONS, INC.
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2005

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 8,081
Pledges receivable	15,833
Total current assets	<u>23,914</u>

PROPERTY AND EQUIPMENT

Land	30,265
Building	137,876
Equipment	62,312
Improvements	11,932
Total property and equipment	<u>242,385</u>
Less: Accumulated depreciation	102,566
Net property and equipment	<u>139,819</u>
 Total assets	 <u>\$ 163,733</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current portion of long term debt	\$ 5,412
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LONG-TERM LIABILITIES

Notes Payable	141,687
Total Liabilities	<u>147,099</u>

NET ASSETS

Unrestricted	16,634
Total net assets	<u>16,634</u>
 Total liabilities and net assets	 <u>\$ 163,733</u>

See accompanying notes and auditor's report.