

ROXY PRODUCTIONS, INC.
AUDITED FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011

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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. (a nonprofit organization) as of August 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 Roxy Productions, Inc. as of August 31, 2012 and 2011, 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 9, 2013

ROXY PRODUCTIONS, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
<u>CURRENT ASSETS</u>		
Contributions receivable, less allowance for uncollectible contributions	\$ 44,050	\$ 31,004
Prepaid expenses	5,250	5,250
Total current assets	<u>49,300</u>	<u>36,254</u>
<u>PROPERTY AND EQUIPMENT</u>		
Land	55,770	55,770
Building	137,876	137,876
Equipment	62,312	62,312
Improvements	75,689	75,689
Total property and equipment	<u>331,647</u>	<u>331,647</u>
Less: accumulated depreciation	174,833	165,080
Net property and equipment	<u>156,814</u>	<u>166,567</u>
<u>OTHER ASSETS</u>		
Cash and cash equivalents - temporarily restricted	76,267	76,679
Long-term contributions receivable, net of discount	59,562	-
Total current assets	<u>135,829</u>	<u>76,679</u>
Total assets	<u>\$ 341,943</u>	<u>\$ 279,500</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 13,293	\$ -
Payroll taxes payable	12,877	4,905
Line of credit	-	90,000
Current portion of notes payable	12,780	9,783
Total current liabilities	<u>38,950</u>	<u>104,688</u>
<u>LONG-TERM LIABILITIES</u>		
Notes payable	200,676	125,356
Total liabilities	<u>239,626</u>	<u>230,044</u>
<u>NET ASSETS</u>		
Unrestricted	(187,518)	(104,215)
Temporarily restricted	289,835	153,671
Total net assets	<u>102,317</u>	<u>49,456</u>
Total liabilities and net assets	<u>\$ 341,943</u>	<u>\$ 279,500</u>

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

ROXY PRODUCTIONS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED AUGUST 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>UNRESTRICTED NET ASSETS</u>		
Revenue		
Admissions	\$ 306,240	\$ 286,631
Contributions	215,686	221,610
Grants	58,180	70,734
Advertising space	10,640	11,360
School for the arts	30,259	19,590
Other	3,058	185
Net assets released from restriction	10,370	10,783
Total unrestricted revenue	<u>634,433</u>	<u>620,893</u>
Expenses		
Program		
Actor's housing	22,233	16,490
Dues	601	1,152
Production	194,689	168,288
Royalties	49,094	39,879
School for the arts	31,267	19,625
Total program expense	<u>297,884</u>	<u>245,434</u>
Management and General		
Advertising	129,272	168,232
Bank Fees	3,402	2,407
Depreciation	9,753	11,530
Development	31,364	10,325
Insurance	16,187	15,746
Interest	11,832	12,779
Janitorial	2,050	2,962
Maintenance	3,781	5,690
Office	4,536	10,728
Payroll taxes	9,137	8,470
Professional services	15,169	13,981
Salaries	119,441	110,756
Travel	3,191	2,478
Utilities	29,867	32,722
Total management and general expense	<u>388,982</u>	<u>408,806</u>

ROXY PRODUCTIONS, INC.
STATEMENTS OF ACTIVITIES (CONT'D)
YEARS ENDED AUGUST 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Fundraising	<u>30,870</u>	<u>22,121</u>
Total expenses	<u>717,736</u>	<u>676,361</u>
Net decrease in unrestricted net assets	<u>(83,303)</u>	<u>(55,468)</u>
<u>TEMPORARILY RESTRICTED NET ASSETS</u>		
Building fund contributions	146,534	67,296
Net assets released from restriction	<u>(10,370)</u>	<u>(10,783)</u>
Net increase in temporarily restricted net assets	136,164	56,513
<u>CHANGE IN NET ASSETS</u>	52,861	1,045
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>49,456</u>	<u>48,411</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 102,317</u>	<u>\$ 49,456</u>

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

ROXY PRODUCTIONS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 52,861	\$ 1,045
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,753	11,530
Changes in:		
Contributions receivable	(72,608)	21,166
Prepaid expenses	-	(5,250)
Accounts payable	13,293	(15,588)
Payroll taxes payable	7,972	4,905
Net cash provided by operating activities	<u>11,271</u>	<u>17,808</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Repayment of notes payable	(11,683)	(15,757)
Net cash used in financing activities	<u>(11,683)</u>	<u>(15,757)</u>
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	(412)	2,051
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>76,679</u>	<u>74,628</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 76,267</u>	<u>\$ 76,679</u>

During the year ended August 31, 2012, the line of credit matured and was converted to a note payable.

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

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

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, Tennessee 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. The Roxy is qualified as a tax-exempt organization under 501(c)(3) of the Internal Revenue Code and has not been determined to be a private foundation. Accordingly, no provision for income taxes has been made. However, the Roxy does file the information returns required by the Internal Revenue Service (the IRS). The Roxy is no longer subject to U.S. federal or state income tax examinations by tax authorities for fiscal years ended before August 31, 2009.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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 in the near term and those variances can have a material effect on the financial statements.

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. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets.

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

Summary of Significant Accounting Policies (Cont'd)

Basis of Accounting (Cont'd)

(2) Temporarily Restricted

Gifts and pledges for which donor-imposed restrictions have not been met at the statement date are considered temporarily restricted. Temporarily restricted net assets include cash and contributions receivable related to the building fund capital campaign. The Roxy had temporarily restricted net assets of \$212,272 and \$153,671 at August 31, 2012 and 2011, respectively.

(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, 2012 and 2011.

Concentrations of Credit Risk

Financial instruments that potentially subject the Roxy to significant concentrations of credit risk consist principally of cash and contributions receivable. The Roxy places its cash with federally-insured financial institutions. With respect to contributions receivable, credit risk is dispersed across several contributors who are geographically concentrated in the Clarksville, Tennessee service area. Pledges receivable from two local banks comprised 69% of the outstanding balance at August 31, 2012. Consequently, the Roxy's ability to collect the pledges due from contributors is affected by economic and other conditions in this geographic area. The Roxy does not require collateral with respect to contributions receivable.

Concentrations of Revenue

Revenues from admissions and in-kind advertising were \$306,240 and \$117,006 and accounted for 42% and 21% of total revenues for the year ended August 31, 2012, respectively. Revenues from admissions and in-kind advertising were \$286,631 and \$139,982 and accounted for 38% and 13% of total revenues for the year ended August 31, 2011, respectively. A major reduction in revenue by these sources could have a significant effect on the future operations of the Roxy.

Cash and Cash Equivalents

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

Contributions Receivable

Contributions receivable consist of unrestricted amounts receivable from the City of Clarksville and temporarily restricted building fund pledges from individuals and businesses. All contributions receivable are expected to be collected within one year. Other contributions are recorded as received. Contributions receivable are not evidenced by any form of collateral.

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

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

Allowance for Uncollectible Contributions Receivable

Bad debts are provided for using the allowance method. Management evaluates known and anticipated uncollectible accounts annually to estimate an adequate allowance for uncollectible contributions receivable. The allowance for uncollectible contributions receivable as of August 31, 2012 and 2011, was \$9,750 and \$14,000, respectively.

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. Depreciation is provided in amounts sufficient to relate the cost of the depreciable assets to operation over their estimated service lives on the straight-line basis. Expenditures for additions, major renovations and improvements are capitalized while those for maintenance and repairs are charged to expense as incurred.

Accrued Compensated Absences

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

In-Kind Donations

The Roxy receives in-kind donations. Included in the statement of activities is \$117,006 and \$139,982 in revenue and expense for advertising-related services received from a local newspaper, magazine and printer for the years ended August 31, 2012 and 2011, respectively.

Advertising Costs

All advertising costs are expensed as incurred. The Roxy incurred and expensed \$129,272 and \$168,232 for advertising costs during the years ended August 31, 2012 and 2011, respectively.

Date of Management's Review

Subsequent events have been evaluated through January 9, 2013, which is the date the financial statements were available to be issued.

2. Cash and Cash Equivalents

Cash and cash equivalents was represented by bank deposits of \$77,235 and \$72,882 at August 31, 2012 and 2011, respectively. All of these amounts were federally insured.

3. Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The Roxy had pledges receivable of \$116,800 at August 31, 2012, discounted \$3,438 at the rate of 2.50%, to the present value of \$113,362.

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

3. Pledges Receivable (Cont'd)

The present value was calculated in the following manner:

<u>Year</u>	<u>Present Value Calculation</u>	<u>Pledges Receivable Amount</u>	<u>Total Present Value</u>	<u>Present Value Discount</u>
2013	1.000000	\$ 53,800	\$ 53,800	\$ -
2014	.975610	18,000	17,561	439
2015	.951810	18,000	17,133	867
2016	.928600	18,000	16,715	1,285
2017	.905950	9,000	8,153	847
		<u>\$ 116,800</u>	<u>\$ 113,362</u>	<u>\$ 3,438</u>

Pledges receivable at August 31, 2012 and 2011, were as follows:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 53,800	\$ 45,004
Receivable in one to five years	63,000	-
Total receivable	116,800	45,004
Less discounts to net present value	(3,438)	-
Less allowance for uncollectible pledges	(9,750)	(14,000)
Net pledges receivable	<u>\$ 103,612</u>	<u>\$ 31,004</u>

4. Notes Payable

Notes payable consisted of the following:

	<u>August 31,</u>	
	<u>2012</u>	<u>2011</u>
6.00% note payable to bank, secured by real estate with a carrying value of \$156,814 at August 31, 2012, payable in monthly installments of \$649 in principal and interest, with a balloon payment of \$77,089 due August 2017.	\$ 89,201	\$ -
5.25% variable note payable to bank, secured by real estate with carrying amounts of \$156,814 and \$166,567 at August 31, 2012 and 2011, respectively, payable in monthly installments of \$1,385 in principal and interest, through March 2022. The next rate adjustment is June 2013.	124,255	135,139
Total notes payable	213,456	135,139
Less : current portion	12,780	9,783
Total long-term portion of notes payable	<u>\$ 200,676</u>	<u>\$ 125,356</u>

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

4. Notes Payable (Cont'd)

Future payments on notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 12,780	\$ 11,635
2014	13,487	10,928
2015	14,233	10,182
2016	15,019	9,395
2017	91,079	8,566
2018-2022	<u>66,858</u>	<u>8,606</u>
	<u>\$ 213,456</u>	<u>\$ 59,312</u>

Cash payments for interest were \$11,832 and \$12,779 for the years ended August 31, 2012 and 2011, respectively.

5. Line of Credit

During the year ended August 31, 2012, the bank line of credit secured by the theater building matured and was converted to a note payable. At August 31, 2011, the Roxy had a line of credit in the amount of \$90,000, of which \$0- remained unused, and had a variable interest that was 6.00%.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the design and construction of a new theater building. Net assets of \$10,370 and \$10,783 were released from donor restrictions by incurring expenses satisfying the purpose specified by donors during the years ended August 31, 2012 and 2011, respectively.

7. Support

The Roxy received funding from the City of Clarksville totaling \$25,833 and \$29,564 for years ended August 31, 2012 and 2011, respectively.

8. Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to support the Roxy's programs, principally in fundraising. No amounts have been recognized in the statement of activities because the criteria for recognition under FASB ASC Codification 958-605-50 have not been satisfied.

9. 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)

10. 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, 2013.

11. Noncompliance with Donor Restrictions

As of August 31, 2012, the Roxy had \$289,835 of temporarily restricted net assets; however the Roxy only had restricted cash of \$76,267 and restricted contributions receivable \$85,812. The Roxy intends to temporarily restrict the remaining \$127,756 when the funds are again available. The Roxy's management anticipates that the donor will not require the contribution to be returned to the donor, and accordingly, no provision has been made for any liabilities that might arise.