

ROXY PRODUCTIONS, INC.
AUDITED FINANCIAL STATEMENTS
AUGUST 31, 2015 AND 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Roxy Productions, Inc.
Clarksville, Tennessee

We have audited the accompanying financial statements of Roxy Productions, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of Roxy Productions, Inc. as of August 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Stone Rudolph & Henry, PLC

Clarksville, Tennessee

January 28, 2016

ROXY PRODUCTIONS, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2015 AND 2014

ASSETS

	<u>2015</u>	<u>2014</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents - unrestricted	4,206	\$ -
Contributions receivable, less allowance for uncollectible contributions	14,300	13,993
Grants receivable	12,000	10,745
Prepaid expenses	15,429	5,250
Total current assets	<u>45,935</u>	<u>29,988</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	<u>202,073</u>	<u>193,289</u>
Net property and equipment	<u>129,574</u>	<u>138,358</u>
<u>LONG-TERM ASSETS</u>		
Cash and cash equivalents - temporarily restricted	-	19,812
Long-term contributions receivable, net of discount	10,557	18,193
Total other assets	<u>10,557</u>	<u>38,005</u>
Total assets	<u><u>\$ 186,066</u></u>	<u><u>\$ 206,351</u></u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Checks issued in excess of bank balance	\$ 17,714	\$ -
Accounts payable	14,750	20,751
Payroll taxes payable	6,896	17,242
Related party payable	32,842	-
Current portion of notes payable	10,496	8,801
Total current liabilities	<u>82,698</u>	<u>46,794</u>
<u>LONG-TERM LIABILITIES</u>		
Notes payable	272,751	221,219
Total liabilities	<u>355,449</u>	<u>268,013</u>
<u>NET ASSETS (DEFICIT)</u>		
Unrestricted	(169,383)	(361,544)
Temporarily restricted	-	299,882
Total net assets (deficit)	<u>(169,383)</u>	<u>(61,662)</u>
Total liabilities and net assets	<u><u>\$ 186,066</u></u>	<u><u>\$ 206,351</u></u>

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

ROXY PRODUCTIONS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED AUGUST 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>CHANGES IN UNRESTRICTED NET ASSETS</u>		
Revenue:		
Admissions	\$ 326,215	\$ 342,746
Contributions	204,260	234,255
Grants	20,855	20,345
Advertising space	14,850	14,090
School for the arts	18,299	27,855
Other	3,851	7,765
Net assets relassed and released from restriction - Note 1	305,221	60,265
Total unrestricted revenue	<u>893,551</u>	<u>707,321</u>
Expenses:		
Program:		
Actor's housing	19,500	16,500
Dues	145	100
Production	203,705	236,278
Royalties	37,432	35,993
School for the arts	19,325	27,510
Total program expense	<u>280,107</u>	<u>316,381</u>
Management and General:		
Advertising	75,653	123,612
Bank fees	13,404	11,908
Depreciation	8,784	8,784
Development	31,636	50,887
Insurance	15,381	12,778
Interest	17,553	10,785
Janitorial	4,525	4,200
Maintenance	5,650	5,316
Office	9,192	7,067
Payroll taxes	10,085	10,196
Penalties	10,686	-
Professional services	14,750	14,750
Salaries	131,830	133,284
Ticket fees	13,375	15,148
Travel	-	1,877
Uncollectible contributions	-	54,000
Utilities	26,186	27,130
Total management and general expense	<u>388,690</u>	<u>491,722</u>

ROXY PRODUCTIONS, INC.
STATEMENTS OF ACTIVITIES (CONT'D)
YEARS ENDED AUGUST 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Fundraising	<u>32,593</u>	<u>20,744</u>
Total expenses	<u>701,390</u>	<u>828,847</u>
Change in unrestricted net assets	<u>192,161</u>	<u>(121,526)</u>
<u>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</u>		
Building fund contributions	5,339	34,330
Net assets relassed and released from restriction - Note 1	<u>(305,221)</u>	<u>(60,265)</u>
Change in temporarily restricted net assets	(299,882)	(25,935)
Change in net assets	(107,721)	(147,461)
<u>NET ASSETS (DEFICIT) - BEGINNING</u>	<u>(61,662)</u>	<u>85,799</u>
<u>NET ASSETS (DEFICIT) - ENDING</u>	<u>\$ (169,383)</u>	<u>\$ (61,662)</u>

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

ROXY PRODUCTIONS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ (107,721)	\$ (147,461)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	8,784	8,784
Changes in:		
Contributions receivable	7,329	60,728
Grant receivable	(1,255)	6,055
Prepaid expenses	(10,179)	13,573
Checks issued in excess of bank balance	17,714	-
Accounts payable	(6,001)	6,000
Related party payable	32,842	-
Payroll taxes payable	(10,346)	(972)
Net cash used in operating activities	<u>(68,833)</u>	<u>(53,293)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Repayment of notes payable	(7,273)	(12,665)
Proceeds from notes payable	<u>60,500</u>	<u>40,000</u>
Net cash provided by financing activities	<u>53,227</u>	<u>27,335</u>
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	(15,606)	(25,958)
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>19,812</u>	<u>45,770</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 4,206</u>	<u>\$ 19,812</u>

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

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015 AND 2014

1. Summary of Significant Accounting Policies

Organization and Nature of Activities

Roxy Productions, Inc. (the Roxy) is a nonprofit organization established August 12, 1985. Its 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 has not been determined to be a private foundation. Accordingly, no provision for income taxes has been made. However, the Roxy does file information returns required by the Internal Revenue Service. The Roxy is no longer subject to federal or state income tax examinations by tax authorities for fiscal years ended before August 31, 2012.

Use of Estimates

The Roxy's financial statements are presented in accordance with accounting principles generally accepted in the United States of America which require the use of management's estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from these estimates in the near term and the variations can have a material effect on these 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. Operating revenues and expenses include those items that increase or decrease unrestricted net assets.

The Financial Accounting Standards Board (FASB) has established standards concerning contributions and financial statement presentation applicable to non-governmental nonprofit 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:

Unrestricted

Unrestricted net assets are free of grant-imposed or donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by grantors or donors are included in this classification. All expenditures are reported in the unrestricted class of net assets since the use of restricted contributions in accordance with the grantors' or donors' stipulations results in the release of the restriction.

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2015 AND 2014

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

Basis of Accounting (Cont'd)

Temporarily Restricted

Temporarily restricted net assets are limited as to use by grant-imposed or donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose. Temporarily restricted net assets historically have included cash and contributions receivable related to the building fund capital campaign. During the last several years, the Roxy has used the temporarily restricted capital campaign contributions to fund operating activities. At August 31, 2015, it is highly unlikely the Roxy will have funds available in the future to replace the temporarily restricted assets that have been previously spent for operating activities; therefore, management has elected to convert the assets temporarily restricted for the building fund capital campaign to unrestricted assets. The majority of the building fund capital campaign contributors have historically supported the operating activities with unrestricted contributions, therefore management believes the donors will not object to the previous temporarily restricted contributions being utilized to fund operations. The Roxy had temporarily restricted net assets of \$-0- and \$299,882 at August 31, 2015 and 2014, respectively.

Permanently Restricted

Permanently restricted net assets are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Roxy had no permanently restricted net assets at August 31, 2015 and 2014.

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. Contributions receivable from one local bank comprised 39% and 42% of the outstanding balance at August 31, 2015 and 2014, respectively. 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 \$326,215 and \$64,866 and accounted for 55% and 11% of total revenues for the year ended August 31, 2015, respectively. Revenues from admissions and in-kind advertising were \$342,746 and \$112,721 and accounted for 50% and 17% of total revenues for the year ended August 31, 2014, 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. Restricted cash and cash equivalents are limited in use to payments for purposes described in Note 6.

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2015 AND 2014

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

Contributions, Contributions Receivable and Grants Receivable

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions receivable consist of unrestricted amounts receivable from the City of Clarksville and temporarily restricted building fund pledges from individuals and businesses. Other contributions are recorded as received. Contributions receivable are not evidenced by any form of collateral.

Grants receivable consists of amounts receivable from the Tennessee Arts Commission. The Tennessee Arts Commission grant provides reimbursements for certain types of operating expenses. This grant receivable amount represents reimbursements that were earned at year end.

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 was \$9,750 as of both August 31, 2015 and 2014.

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 lives using the straight-line method.

Accrued Compensated Absences

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

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.

Advertising Costs

All advertising costs are expensed as incurred. The Roxy incurred and expensed \$75,653 and \$123,612 for advertising costs during the years ended August 31, 2015 and 2014, respectively.

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2015 AND 2014

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

Date of Management's Review

Subsequent events have been evaluated through January 28, 2016, 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 in a financial institution totaling \$4,232 and \$24,279 at August 31, 2015 and 2014, respectively. All of these amounts were insured by the Federal Deposit Insurance Corporation.

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 \$35,050 at August 31, 2015, discounted \$443 at the rate of 2.00%, to the present value of \$34,607.

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>
2016	1.000000	\$ 24,050	\$ 24,050	\$ -
2017	.980390	5,000	4,902	98
2018	.961170	2,000	1,922	78
2019	.942320	2,000	1,885	115
2020	.923850	2,000	1,848	152
		<u>\$ 35,050</u>	<u>\$ 34,607</u>	<u>\$ 443</u>

Pledges receivable at August 31, 2015 and 2014, were as follows:

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 24,050	\$ 23,743
Receivable in one to five years	<u>11,000</u>	<u>19,000</u>
Total receivable	35,050	42,743
Less discounts to net present value	(443)	(807)
Less allowance for uncollectible pledges	<u>(9,750)</u>	<u>(9,750)</u>
Net pledges receivable	<u>\$ 24,857</u>	<u>\$ 32,186</u>

During the year ended August 31, 2014, \$54,000 of pledges receivable was deemed uncollectible and written-off.

4. Related Party Payable

During the year ended August 31, 2015, the Roxy borrowed \$41,842 from the executive director for general operating expenses. At August 31, 2015, the balance due to the executive director \$32,842. There are no repayment terms, but the Roxy expects to repay the balance during fiscal year ending August 31, 2016, therefore the balance is classified as a current liability.

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2015 AND 2014

5. Notes Payable

Notes payable consisted of the following:

	<u>August 31,</u>	
	<u>2015</u>	<u>2014</u>
6.00% note payable to bank, secured by real estate with a carrying amount of \$138,358 at August 31, 2014, payable in monthly installments of \$649 in principal and interest, with a balloon payment of \$77,089, refinanced in 2015.	\$ -	\$ 84,854
4.00% unsecured note payable to bank, balance was refinanced in 2015.	-	40,000
5.25% variable note payable to bank, secured by real estate with a carrying amount of \$138,358 at August 31, 2014, payable in monthly installments of \$1,385 in principal and interest, refinanced in 2015.	-	105,166
4.99% note payable to bank, secured by real estate with a carrying amount of \$129,574 at August 31, 2015, respectively, payable in monthly installments of \$1,774 in principal and interest, through January 2035.	262,747	-
5.25% unsecured note payable to bank, due in December 2015. The Roxy refinanced this debt in 2016, payable in monthly installments of \$390 in principal and interest, through January 2021.	<u>20,500</u>	<u>-</u>
Total notes payable	283,247	230,020
Less : current portion	<u>10,496</u>	<u>8,801</u>
Total long-term portion of notes payable	<u>\$ 272,751</u>	<u>\$ 221,219</u>

Future payments on notes payable are as follows:

<u>Year Ending</u> <u>August 31,</u>	<u>Amount</u>
2016	\$ 10,496
2017	12,600
2018	13,254
2019	13,942
2020	14,664
Thereafter	<u>218,291</u>
	<u>\$ 283,247</u>

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2015 AND 2014

5. Notes Payable (Cont'd)

Cash payments for interest were \$17,553 and \$10,785 for the years ended August 31, 2015 and 2014, respectively.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the design and construction of a new theater building. Net assets of \$60,265 were released from donor restrictions by incurring expenses satisfying the purpose specified by donors during the year ended August 31, 2014. Net assets of \$305,221 were released from donor restrictions as described in Note 1 during the year ended August 31, 2015.

7. In-Kind Donations

The Roxy receives in-kind donations. Included in the statement of activities is \$64,866 and \$112,721 in revenue and expense for advertising-related services received from a local newspaper, magazine and printer for the years ended August 31, 2015 and 2014, respectively.

8. Support

The Roxy received funding from the City of Clarksville totaling \$16,193 and \$18,148 for years ended August 31, 2015 and 2014, respectively.

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.

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 expired on June 1, 2013 but was extended indefinitely until a decision is reached by the City.