

ROXY PRODUCTIONS, INC.
AUDITED FINANCIAL STATEMENTS
AUGUST 31, 2013 AND 2012

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INDEPENDENT AUDITOR'S REPORT

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, 2013 and 2012, 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, 2013 and 2012, 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 9, 2014

ROXY PRODUCTIONS, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
<u>CURRENT ASSETS</u>		
Contributions receivable, less allowance for uncollectible contributions	\$ 28,550	\$ 44,050
Grants receivable	16,800	-
Prepaid expenses	18,823	5,250
Total current assets	<u>64,173</u>	<u>49,300</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	184,505	174,833
Net property and equipment	<u>147,142</u>	<u>156,814</u>
<u>OTHER ASSETS</u>		
Cash and cash equivalents - temporarily restricted	45,770	76,267
Long-term contributions receivable, net of discount	64,364	59,562
Total other assets	<u>110,134</u>	<u>135,829</u>
Total assets	<u>\$ 321,449</u>	<u>\$ 341,943</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 14,751	\$ 13,293
Payroll taxes payable	18,214	12,877
Current portion of notes payable	13,487	12,780
Total current liabilities	<u>46,452</u>	<u>38,950</u>
<u>LONG-TERM LIABILITIES</u>		
Notes payable	189,198	200,676
Total liabilities	<u>235,650</u>	<u>239,626</u>
<u>NET ASSETS</u>		
Unrestricted	(240,018)	(187,518)
Temporarily restricted	325,817	289,835
Total net assets	<u>85,799</u>	<u>102,317</u>
Total liabilities and net assets	<u>\$ 321,449</u>	<u>\$ 341,943</u>

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

ROXY PRODUCTIONS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED AUGUST 31, 2013 AND 2012

<u>CHANGES IN UNRESTRICTED NET ASSETS</u>	<u>2013</u>	<u>2012</u>
Revenue:		
Admissions	\$ 347,522	\$ 306,240
Contributions	233,418	236,786
Grants	32,900	37,080
Advertising space	15,650	10,640
School for the arts	25,354	30,259
Other	4,776	3,058
Net assets released from restriction	3,859	10,370
Total unrestricted revenue	<u>663,479</u>	<u>634,433</u>
Expenses:		
Program:		
Actor's housing	18,420	22,233
Dues	1,227	601
Production	228,228	194,689
Royalties	31,205	49,094
School for the arts	25,439	31,267
Total program expense	<u>304,519</u>	<u>297,884</u>
Management and General:		
Advertising	107,030	129,272
Bank fees	5,757	3,402
Depreciation	9,672	9,753
Development	38,244	31,364
Insurance	15,261	16,187
Interest	13,217	11,832
Janitorial	4,268	2,050
Maintenance	4,286	3,781
Office	8,172	4,536
Payroll taxes	9,642	9,137
Professional services	14,750	15,169
Salaries	126,037	119,441
Travel	2,408	3,191
Utilities	27,598	29,867
Total management and general expense	<u>386,342</u>	<u>388,982</u>

ROXY PRODUCTIONS, INC.
STATEMENTS OF ACTIVITIES (CONT'D)
YEARS ENDED AUGUST 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Fundraising	<u>25,118</u>	<u>30,870</u>
Total expenses	<u>715,979</u>	<u>717,736</u>
Change in unrestricted net assets	<u>(52,500)</u>	<u>(83,303)</u>
<u>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</u>		
Building fund contributions	39,841	146,534
Net assets released from restriction	<u>(3,859)</u>	<u>(10,370)</u>
Change in temporarily restricted net assets	35,982	136,164
Change in net assets	(16,518)	52,861
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>102,317</u>	<u>49,456</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 85,799</u>	<u>\$ 102,317</u>

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

ROXY PRODUCTIONS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ (16,518)	\$ 52,861
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	9,672	9,753
Changes in:		
Contributions receivable	10,698	(72,608)
Grant receivable	(16,800)	-
Prepaid expenses	(13,573)	-
Accounts payable	1,458	13,293
Payroll taxes payable	5,337	7,972
Net cash provided by (used in) operating activities	<u>(19,726)</u>	<u>11,271</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Repayment of notes payable	<u>(10,771)</u>	<u>(11,683)</u>
Net cash used in financing activities	<u>(10,771)</u>	<u>(11,683)</u>
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	(30,497)	(412)
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>76,267</u>	<u>76,679</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 45,770</u>	<u>\$ 76,267</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
AUGUST 31, 2013 AND 2012

1. Summary of Significant Accounting Policies

Organization and Nature of Activities

Roxy Productions, Inc. (the Roxy) is a non-profit 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, 2010.

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 these 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:

(1) 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.

(2) 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 include cash and contributions receivable related to the building fund capital campaign. The Roxy had temporarily restricted net assets of \$325,817 and \$289,835 at August 31, 2013 and 2012, respectively.

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2013 AND 2012

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

Basis of Accounting (Cont'd)

(3) 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, 2013 and 2012.

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 two local banks comprised 69% of the outstanding balance at both August 31, 2013 and 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 \$347,522 and \$98,725 and accounted for 50% and 14% of total revenues for the year ended August 31, 2013, respectively. 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. 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, 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 consist 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, 2013 and 2012.

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2013 AND 2012

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

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 \$107,030 and \$129,272 for advertising costs during the years ended August 31, 2013 and 2012, respectively.

Change in Presentation

Certain items from the prior year may have been reclassified to conform to current year presentation.

Date of Management's Review

Subsequent events have been evaluated through January 9, 2014, 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 \$52,197 and \$77,235 at August 31, 2013 and 2012, respectively. All of these amounts were federally 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 \$107,300 at August 31, 2013, discounted \$4,636 at the rate of 2.00%, to the present value of \$102,664.

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2013 AND 2012

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>
2014	1.000000	\$ 38,300	\$ 38,300	\$ -
2015	.980390	6,000	5,882	118
2016	.961170	6,000	5,767	233
2017	.942320	3,000	2,827	173
2018	.923850	54,000	49,888	4,112
		<u>\$ 107,300</u>	<u>\$ 102,664</u>	<u>\$ 4,636</u>

Pledges receivable at August 31, 2013 and 2012, were as follows:

	<u>2013</u>	<u>2012</u>
Receivable in less than one year	\$ 38,300	\$ 53,800
Receivable in one to five years	69,000	63,000
Total receivable	107,300	116,800
Less discounts to net present value	(4,636)	(3,438)
Less allowance for uncollectible pledges	(9,750)	(9,750)
Net pledges receivable	<u>\$ 92,914</u>	<u>\$ 103,612</u>

4. Notes Payable

Notes payable consisted of the following:

	<u>August 31,</u>	
	<u>2013</u>	<u>2012</u>
6.00% note payable to bank, secured by real estate with carrying amounts of \$147,142 and \$156,814 at August 31, 2013 and 2012, respectively, payable in monthly installments of \$649 in principal and interest, with a balloon payment of \$77,089 due August 2017.	\$ 87,585	\$ 89,201
5.25% variable note payable to bank, secured by real estate with carrying amounts of \$147,142 and \$156,814 at August 31, 2013 and 2012, respectively, payable in monthly installments of \$1,385 in principal and interest, through March 2022.	115,100	124,255
Total notes payable	202,685	213,456
Less : current portion	13,487	12,780
Total long-term portion of notes payable	<u>\$ 189,198</u>	<u>\$ 200,676</u>

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2013 AND 2012

4. Notes Payable (Cont'd)

Future payments on notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>
2014	\$ 13,487	\$ 10,928
2015	14,233	10,182
2016	15,019	9,395
2017	91,934	8,566
2018-2022	<u>68,012</u>	<u>8,606</u>
	<u>\$ 202,685</u>	<u>\$ 47,677</u>

Cash payments for interest were \$13,217 and \$11,832 for the years ended August 31, 2013 and 2012, 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.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the design and construction of a new theater building. Net assets of \$3,859 and \$10,370 were released from donor restrictions by incurring expenses satisfying the purpose specified by donors during the years ended August 31, 2013 and 2012, respectively.

7. In-Kind Donations

The Roxy receives in-kind donations. Included in the statement of activities is \$98,725 and \$117,006 in revenue and expense for advertising-related services received from a local newspaper, magazine and printer for the years ended August 31, 2013 and 2012, respectively.

8. Support

The Roxy received funding from the City of Clarksville totaling \$20,300 and \$25,833 for years ended August 31, 2013 and 2012, 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.

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2013 AND 2012

11. Noncompliance with Donor Restrictions

As of August 31, 2013, the Roxy had \$325,817 of temporarily restricted net assets; however the Roxy only had restricted cash of \$45,770 and restricted contributions receivable \$78,614. The Roxy intends to temporarily restrict the remaining \$201,433 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.