

ROXY PRODUCTIONS, INC.
AUDITED FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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 26, 2017

ROXY PRODUCTIONS, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 3,666	\$ 4,206
Contributions receivable, less allowance for uncollectible contributions	-	14,300
Grants receivable	12,840	12,000
Prepaid expenses	12,294	15,429
Total current assets	<u>28,800</u>	<u>45,935</u>
<u>PROPERTY AND EQUIPMENT</u>		
Land	55,770	55,770
Building	137,876	137,876
Equipment	66,580	62,312
Improvements	75,689	75,689
Total property and equipment	<u>335,915</u>	<u>331,647</u>
Less: accumulated depreciation	211,339	202,073
Net property and equipment	<u>124,576</u>	<u>129,574</u>
<u>LONG-TERM ASSETS</u>		
Long-term contributions receivable, net of discount	-	10,557
Total other assets	-	10,557
Total assets	<u>\$ 153,376</u>	<u>\$ 186,066</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Checks issued in excess of bank balance	\$ -	\$ 17,714
Accounts payable	42,596	14,750
Payroll taxes payable	16,391	6,896
Current portion of related-party payables	7,000	-
Current portion of notes payable	7,378	10,496
Total current liabilities	<u>73,365</u>	<u>49,856</u>
<u>LONG-TERM LIABILITIES</u>		
Related-party payables	35,052	32,842
Notes payable	314,068	272,751
Total long-term liabilities	<u>349,120</u>	<u>305,593</u>
Total liabilities	<u>422,485</u>	<u>355,449</u>
<u>NET ASSETS (DEFICIT)</u>		
Unrestricted	(269,109)	(169,383)
Total net assets (deficit)	<u>(269,109)</u>	<u>(169,383)</u>
Total liabilities and net assets	<u>\$ 153,376</u>	<u>\$ 186,066</u>

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

ROXY PRODUCTIONS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>CHANGES IN UNRESTRICTED NET ASSETS</u>		
Revenue:		
Admissions	\$ 274,031	\$ 326,215
Contributions	222,545	204,260
Grants	12,840	20,855
Advertising space	9,400	14,850
School for the arts	19,320	18,299
Other	6,618	3,851
Net assets reclassified and released from restriction - Note 1	-	305,221
Total unrestricted revenue	<u>544,754</u>	<u>893,551</u>
Expenses:		
Program:		
Actor's housing	18,874	19,500
Dues	1,413	145
Production	170,705	203,705
Royalties	24,976	37,432
School for the arts	16,672	19,325
Total program expense	<u>232,640</u>	<u>280,107</u>
Management and General:		
Advertising	84,720	75,653
Bank fees	14,810	13,404
Depreciation	9,266	8,784
Development	14,064	31,636
Insurance	12,814	15,381
Interest	17,830	17,553
Janitorial	7,052	4,525
Maintenance	5,388	5,650
Office	6,186	9,192
Payroll taxes	11,577	10,085
Penalties	-	10,686
Professional services	24,573	14,750
Salaries	131,729	131,830
Ticket fees	15,875	13,375
Uncollectible contributions	5,557	-
Utilities	25,423	26,186
Total management and general expense	<u>386,864</u>	<u>388,690</u>

ROXY PRODUCTIONS, INC.
STATEMENTS OF ACTIVITIES (CONT'D)
YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Fundraising	<u>24,976</u>	<u>32,593</u>
Total expenses	<u>644,480</u>	<u>701,390</u>
Change in unrestricted net assets	<u>(99,726)</u>	<u>192,161</u>
<u>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</u>		
Building fund contributions	-	5,339
Net assets reclassified and released from restriction - Note 1	<u>-</u>	<u>(305,221)</u>
Change in temporarily restricted net assets	-	(299,882)
Change in net assets	(99,726)	(107,721)
<u>NET ASSETS (DEFICIT) - BEGINNING</u>	<u>(169,383)</u>	<u>(61,662)</u>
<u>NET ASSETS (DEFICIT) - ENDING</u>	<u><u>\$ (269,109)</u></u>	<u><u>\$ (169,383)</u></u>

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

ROXY PRODUCTIONS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ (99,726)	\$ (107,721)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	9,266	8,784
Changes in:		
Contributions receivable	24,857	7,329
Grant receivable	(840)	(1,255)
Prepaid expenses	3,135	(10,179)
Checks issued in excess of bank balance	(17,714)	17,714
Accounts payable	27,846	(6,001)
Related-party payables	9,210	32,842
Payroll taxes payable	9,495	(10,346)
Net cash used in operating activities	<u>(34,471)</u>	<u>(68,833)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(4,268)	-
Net cash used in investing activities	<u>(4,268)</u>	<u>-</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Repayment of notes payable	(1,554)	(7,273)
Proceeds from notes payable	39,753	60,500
Net cash provided by financing activities	<u>38,199</u>	<u>53,227</u>
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	(540)	(15,606)
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>4,206</u>	<u>19,812</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 3,666</u>	<u>\$ 4,206</u>

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

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

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, 2013.

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, 2016 AND 2015

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. During the year ended August 31, 2015, management elected to convert the assets temporarily restricted for the building fund capital campaign to unrestricted assets. The Roxy had no temporarily restricted net assets at August 31, 2016 and 2015.

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, 2016 and 2015.

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% of the outstanding balance at August 31, 2015, 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 \$274,031 and \$72,532 and accounted for 50% and 13% of total revenues for the year ended August 31, 2016, respectively. 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. 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 at August 31, 2015, consisted 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.

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2016 AND 2015

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

Contributions, Contributions Receivable and Grants Receivable (Cont'd)

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.

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 \$-0- and \$9,750 as of August 31, 2016 and 2015, 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. 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 \$84,720 and \$75,653 for advertising costs during the years ended August 31, 2016 and 2015, respectively.

Date of Management's Review

Subsequent events have been evaluated through January 26, 2017, which is the date the financial statements were available to be issued.

Change in Presentation

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

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2016 AND 2015

2. Cash and Cash Equivalents

Cash and cash equivalents was represented by bank deposits in a financial institution totaling \$6,863 and \$4,232 at August 31, 2016 and 2015, 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.

Pledges receivable at August 31, 2016 and 2015, were as follows:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ -	\$ 24,050
Receivable in one to five years	-	11,000
Total receivable	-	35,050
Less discounts to net present value	-	(443)
Less allowance for uncollectible pledges	-	(9,750)
Net pledges receivable	<u>\$ -</u>	<u>\$ 24,857</u>

4. Related-Party Payables

During the years ended August 31, 2016 and 2015, the Roxy borrowed funds from the executive director for general operating expenses. At August 31, 2016, \$32,052 was the balance due to the former executive director. During the year ended August 31, 2016, the Roxy agreed to pay the former artistic director a severance package of \$10,000, which is the balance due at August 31, 2016. There are no repayment terms as of the date of this report, but the Roxy expects to repay \$500 per month on each balance beginning February 2017.

Expected future payments on the related-party payables are as follows:

<u>Year Ending</u> <u>August 31,</u>	<u>Amount</u>
2017	\$ 7,000
2018	12,000
2019	6,500
2020	6,000
2021	6,000
Thereafter	4,552
	<u>\$ 42,052</u>

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2016 AND 2015

5. Notes Payable

Notes payable consisted of the following:

	<u>August 31,</u>	
	<u>2016</u>	<u>2015</u>
4.99% note payable to bank, secured by real estate with a carrying amount of \$129,574 at August 31, 2015, payable in monthly installments of \$1,774 in principal and interest, refinanced in 2016.	\$ -	\$ 262,747
5.25% unsecured note payable to bank, refinanced in 2016.	-	20,500
4.50% note payable to bank, secured by real estate with a carrying amount of \$120,788 at August 31, 2016, payable in monthly installments of \$1,807 in principal and interest, through May 2041.	<u>321,446</u>	<u>-</u>
Total notes payable	321,446	283,247
Less : current portion	<u>7,378</u>	<u>10,496</u>
Total long-term portion of notes payable	<u>\$ 314,068</u>	<u>\$ 272,751</u>

Future payments on notes payable are as follows:

<u>Year Ending</u> <u>August 31,</u>	<u>Amount</u>
2017	\$ 7,378
2018	7,717
2019	8,072
2020	8,442
2021	8,830
Thereafter	<u>281,007</u>
	<u>\$ 321,446</u>

Cash payments for interest were \$17,830 and \$17,553 for the years ended August 31, 2016 and 2015, respectively.

6. In-Kind Donations

The Roxy receives in-kind donations. Included in the statement of activities is \$72,532 and \$64,866 in revenue and expense for advertising-related services received from a local newspaper, magazine and printer for the years ended August 31, 2016 and 2015, respectively.

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2016 AND 2015

7. Support

The Roxy received funding from the City of Clarksville totaling \$10,750 and \$16,193 for years ended August 31, 2016 and 2015, respectively. No funding from the City is anticipated in the August 31, 2017, fiscal year.

8. 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. A lien was filed against the building by the previous executive director and artistic director for \$330,000 should the building ever be sold.

9. 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.