

ROXY PRODUCTIONS, INC.
AUDITED FINANCIAL STATEMENTS
AUGUST 31, 2011 AND 2010



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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, 2011 and 2010, 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, 2011 and 2010, 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 12, 2012

ROXY PRODUCTIONS, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents - Unrestricted	\$ -	\$ 4,640
Contributions Receivable, Less Allowance for Uncollectible Contributions	31,004	52,170
Prepaid Expenses	5,250	-
Total Current Assets	<u>36,254</u>	<u>56,810</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	165,080	153,550
Net Property and Equipment	<u>166,567</u>	<u>178,097</u>
<u>OTHER ASSETS</u>		
Cash and Cash Equivalents - Temporarily Restricted	76,679	69,988
Total Assets	<u>\$ 279,500</u>	<u>\$ 304,895</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ -	\$ 15,588
Payroll Taxes Payable	4,905	-
Line of Credit	90,000	90,000
Current Portion of Notes Payable	9,783	15,784
Total Current Liabilities	<u>104,688</u>	<u>121,372</u>
<u>LONG-TERM LIABILITIES</u>		
Notes Payable	125,356	135,112
Total Liabilities	<u>230,044</u>	<u>256,484</u>
<u>NET ASSETS</u>		
Unrestricted	(104,215)	(48,747)
Temporarily Restricted	153,671	97,158
Total Net Assets	<u>49,456</u>	<u>48,411</u>
Total Liabilities and Net Assets	<u>\$ 279,500</u>	<u>\$ 304,895</u>

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

ROXY PRODUCTIONS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED AUGUST 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>UNRESTRICTED NET ASSETS</u>		
Revenue		
Admissions	\$ 286,631	\$ 239,947
Contributions	221,610	184,107
Grants	70,734	51,343
Advertising Space	11,360	18,275
School for the Arts	19,590	16,232
Other	185	1,902
Net Assets Released From Restriction	10,783	25,477
Total Unrestricted Revenue	<u>620,893</u>	<u>537,283</u>
Expenses		
Program		
Actor's Housing	16,490	15,600
Dues	1,152	235
Production	168,288	147,607
Royalties	39,879	31,805
School for the Arts	19,625	14,925
Total Program Expense	<u>245,434</u>	<u>210,172</u>
Management and General		
Advertising	168,232	95,112
Bad Debts	-	15,000
Bank Fees	2,407	3,113
Depreciation	11,530	10,871
Development	10,325	11,518
Insurance	15,746	14,976
Interest	12,779	18,116
Janitorial	2,962	3,300
Maintenance	5,690	6,216
Office	9,317	6,871
Payroll Taxes	8,470	8,605
Postage	1,411	1,260
Professional Services	13,981	13,846
Salaries	110,756	112,481
Travel	2,478	2,633
Utilities	32,722	31,623
Total Management and General Expense	<u>408,806</u>	<u>355,541</u>

ROXY PRODUCTIONS, INC.
STATEMENTS OF ACTIVITIES (CONT'D)
YEARS ENDED AUGUST 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Fundraising	<u>22,121</u>	<u>15,176</u>
Total Expenses	<u>676,361</u>	<u>580,889</u>
Net Decrease in Unrestricted Net Assets	<u>(55,468)</u>	<u>(43,606)</u>
<u>TEMPORARILY RESTRICTED NET ASSETS</u>		
Building Fund Contributions	67,296	120,705
Net Assets Released From Restriction	<u>(10,783)</u>	<u>(25,477)</u>
Net Increase in Temporarily Restricted Net Assets	56,513	95,228
<u>CHANGE IN NET ASSETS</u>	1,045	51,622
<u>NET ASSETS (DEFICIT) - BEGINNING OF YEAR</u>	<u>48,411</u>	<u>(3,211)</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 49,456</u>	<u>\$ 48,411</u>

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

ROXY PRODUCTIONS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 1,045	\$ 51,622
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	11,530	10,871
Changes in:		
Contributions Receivable	21,166	(35,504)
Grant Receivable	-	18,458
Prepaid Expenses	(5,250)	-
Accounts Payable	(15,588)	2,712
Payroll Taxes Payable	4,905	(5,967)
Net cash provided by operating activities	<u>17,808</u>	<u>42,192</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Repayment of Notes Payable	(15,757)	(7,885)
Proceeds from Line of Credit	-	39,427
Net cash provided by (used in) financing activities	<u>(15,757)</u>	<u>31,542</u>
<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	2,051	73,734
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>74,628</u>	<u>894</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 76,679</u>	<u>\$ 74,628</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

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.

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.

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. 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 \$286,631 and \$139,982 and accounted for 42% and 21% of total revenues for the year ended August 31, 2011. Revenues from admissions and in-kind advertising were \$239,947 and \$80,436 and accounted for 38% and 13% of total revenues for the year ended August 31, 2010. A major reduction in revenue by these sources could have a significant effect on the future operations of the Roxy.

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.

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

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

Basis of Accounting (Cont'd)

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.

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.

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, 2011 and 2010.

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.

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, 2011 and 2010, was \$14,000 and \$15,000, 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.

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

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

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 \$139,982 and \$80,436 in revenue and expense for advertising-related services received from a local newspaper, magazine and printer for the years ended August 31, 2011 and 2010, respectively.

Advertising Costs

All advertising costs are expensed as incurred. The Roxy incurred and expensed \$168,232 and \$95,112 for advertising costs during the years ended August 31, 2011 and 2010, respectively.

Date of Management's Review

Subsequent events have been evaluated through January 12, 2012, 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 \$72,882 and \$80,495 at August 31, 2011 and 2010, respectively. All of these amounts were federally insured.

3. Notes Payable

Notes Payable consists of the following:

	<u>August 31,</u>	
	<u>2011</u>	<u>2010</u>
Unsecured, interest-free short term note payable to an individual.	\$ -	\$ 1,500
Unsecured, interest-free short term note payable to an individual.	-	5,000
Note payable to bank, secured by land and building, refinanced in March 2007, payable in 36 monthly installments of \$1,613, and 144 monthly installments of payments of \$1,385 with interest accruing at a variable rate of 2.0% above the prime rate which is adjusted every three years. The next rate adjustment is due in June 2013. The rate at August 31, 2011 was 5.25%.	<u>135,139</u>	<u>144,396</u>
Total Notes Payable	135,139	150,896
Less : Current Portion	<u>9,783</u>	<u>15,784</u>
Total Long-Term Portion of Notes Payable	<u>\$ 125,356</u>	<u>\$ 135,112</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>
2012	\$ 9,783	\$ 6,843
2013	10,309	6,317
2014	10,864	5,762
2015	11,448	5,178
2016	12,064	4,562
2017-2021	70,778	12,352
2022	9,893	167
	<u>\$ 135,139</u>	<u>\$ 41,181</u>

Cash payments for interest were \$12,779 and \$18,116 for the years ended August 31, 2011 and 2010, respectively.

4. Line of Credit

The Roxy has a bank line of credit secured by the theater building in the amount of \$90,000, of which \$0- remains unused. The line of credit requires monthly interest payments and has a variable interest rate which was 6.00% at August 31, 2011. The line of credit was obtained for temporary cash flow needs. The line of credit is due to be paid in full on June 16, 2012.

5. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the design and construction of a new theater building. Net assets of \$10,783 and \$25,477 were released from donor restrictions by incurring expenses satisfying the purpose specified by donors during the years ended August 31, 2011 and 2010, respectively.

6. Support

The Roxy received funding from the City of Clarksville totaling \$29,564 and \$30,000 for years ended August 31, 2011 and 2010, respectively.

7. Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to support the Organization'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.

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.

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

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 expires June 1, 2012.

10. Noncompliance with Donor Restrictions

As of August 31, 2011, the Roxy had \$153,671 of temporarily restricted net assets; however the Roxy only had restricted cash of \$76,679 and restricted contributions receivable \$8,250. The Organization intends to temporarily restrict the remaining \$68,742 when the funds are again available. The Organization'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.