

ROXY PRODUCTIONS, INC.
AUDITED FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

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STONE,
RUDOLPH
& HENRY, PLC

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Public
Accountants

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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, 2014 and 2013, 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, 2014 and 2013, 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 8, 2015

ROXY PRODUCTIONS, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
<u>CURRENT ASSETS</u>		
Contributions receivable, less allowance for uncollectible contributions	\$ 13,993	\$ 28,550
Grants receivable	10,745	16,800
Prepaid expenses	5,250	18,823
Total current assets	<u>29,988</u>	<u>64,173</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	193,289	184,505
Net property and equipment	<u>138,358</u>	<u>147,142</u>
<u>RESTRICTED ASSETS</u>		
Cash and cash equivalents - temporarily restricted	19,812	45,770
Long-term contributions receivable, net of discount	18,193	64,364
Total other assets	<u>38,005</u>	<u>110,134</u>
Total assets	<u><u>\$ 206,351</u></u>	<u><u>\$ 321,449</u></u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 20,751	\$ 14,751
Payroll taxes payable	17,242	18,214
Current portion of notes payable	8,801	13,487
Total current liabilities	<u>46,794</u>	<u>46,452</u>
<u>LONG-TERM LIABILITIES</u>		
Notes payable	221,219	189,198
Total liabilities	<u>268,013</u>	<u>235,650</u>
<u>NET ASSETS (DEFICIT)</u>		
Unrestricted	(361,544)	(240,018)
Temporarily restricted	299,882	325,817
Total net assets (deficit)	<u>(61,662)</u>	<u>85,799</u>
Total liabilities and net assets	<u><u>\$ 206,351</u></u>	<u><u>\$ 321,449</u></u>

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

ROXY PRODUCTIONS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED AUGUST 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>CHANGES IN UNRESTRICTED NET ASSETS</u>		
Revenue:		
Admissions	\$ 342,746	\$ 362,292
Contributions	234,255	233,418
Grants	20,345	32,900
Advertising space	14,090	15,650
School for the arts	27,855	25,354
Other	7,765	4,776
Net assets released from restriction	60,265	3,859
Total unrestricted revenue	<u>707,321</u>	<u>678,249</u>
Expenses:		
Program:		
Actor's housing	16,500	18,420
Dues	100	1,227
Production	236,278	228,228
Royalties	35,993	31,205
School for the arts	27,510	25,439
Total program expense	<u>316,381</u>	<u>304,519</u>
Management and General:		
Advertising	123,612	107,030
Bank fees	11,908	5,757
Depreciation	8,784	9,672
Development	50,887	38,244
Insurance	12,778	15,261
Interest	10,785	13,217
Janitorial	4,200	4,268
Maintenance	5,316	4,286
Office	7,067	8,172
Payroll taxes	10,196	9,642
Professional services	14,750	14,750
Salaries	133,284	126,037
Ticket fees	15,148	14,770
Travel	1,877	2,408
Uncollectible contributions	54,000	-
Utilities	27,130	27,598
Total management and general expense	<u>491,722</u>	<u>401,112</u>

ROXY PRODUCTIONS, INC.
STATEMENTS OF ACTIVITIES (CONT'D)
YEARS ENDED AUGUST 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Fundraising	<u>20,744</u>	<u>25,118</u>
Total expenses	<u>828,847</u>	<u>730,749</u>
Change in unrestricted net assets	<u>(121,526)</u>	<u>(52,500)</u>
<u>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</u>		
Building fund contributions	34,330	39,841
Net assets released from restriction	<u>(60,265)</u>	<u>(3,859)</u>
Change in temporarily restricted net assets	<u>(25,935)</u>	<u>35,982</u>
Change in net assets	(147,461)	(16,518)
<u>NET ASSETS - BEGINNING</u>	<u>85,799</u>	<u>102,317</u>
<u>NET ASSETS (DEFICIT) - ENDING</u>	<u>\$ (61,662)</u>	<u>\$ 85,799</u>

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

ROXY PRODUCTIONS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ (147,461)	\$ (16,518)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	8,784	9,672
Changes in:		
Contributions receivable	60,728	10,698
Grant receivable	6,055	(16,800)
Prepaid expenses	13,573	(13,573)
Accounts payable	6,000	1,458
Payroll taxes payable	(972)	5,337
Net cash provided by (used in) operating activities	<u>(53,293)</u>	<u>(19,726)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Repayment of notes payable	(12,665)	(10,771)
Proceeds from notes payable	40,000	-
Net cash provided by (used in) financing activities	<u>27,335</u>	<u>(10,771)</u>
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	(25,958)	(30,497)
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>45,770</u>	<u>76,267</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u><u>\$ 19,812</u></u>	<u><u>\$ 45,770</u></u>

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

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

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, 2011.

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.

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 \$299,882 and \$325,817 at August 31, 2014 and 2013, respectively.

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2014 AND 2013

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

Basis of Accounting (Cont'd)

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, 2014 and 2013.

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 42% and 69% of the outstanding balance at August 31, 2014 and 2013, 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 \$342,746 and \$112,721 and accounted for 50% and 17% of total revenues for the year ended August 31, 2014, respectively. Revenues from admissions and in-kind advertising were \$362,292 and \$98,725 and accounted for 50% and 14% of total revenues for the year ended August 31, 2013, 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 5.

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.

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2014 AND 2013

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 was \$9,750 as of both August 31, 2014 and 2013.

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 \$123,612 and \$107,030 for advertising costs during the years ended August 31, 2014 and 2013, 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 8, 2015, 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 \$24,279 and \$52,197 at August 31, 2014 and 2013, 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 \$42,743 at August 31, 2014, discounted \$807 at the rate of 2.00%, to the present value of \$41,936.

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2014 AND 2013

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>
2015	1.000000	\$ 23,743	\$ 23,743	\$ -
2016	.980390	8,000	7,843	157
2017	.961170	5,000	4,806	194
2018	.942320	2,000	1,885	115
2019	.923850	2,000	1,848	152
2020	.905730	2,000	1,811	189
		<u>\$ 42,743</u>	<u>\$ 41,936</u>	<u>\$ 807</u>

Pledges receivable at August 31, 2014 and 2013, were as follows:

	<u>2014</u>	<u>2013</u>
Receivable in less than one year	\$ 23,743	\$ 38,300
Receivable in one to five years	<u>19,000</u>	<u>69,000</u>
Total receivable	42,743	107,300
Less discounts to net present value	(807)	(4,636)
Less allowance for uncollectible pledges	<u>(9,750)</u>	<u>(9,750)</u>
Net pledges receivable	<u>\$ 32,186</u>	<u>\$ 92,914</u>

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

4. Notes Payable

Notes payable consisted of the following:

	<u>August 31,</u>	
	<u>2014</u>	<u>2013</u>
6.00% note payable to bank, secured by real estate with carrying amounts of \$138,358 and \$147,142 at August 31, 2014 and 2013, respectively, payable in monthly installments of \$649 in principal and interest, with a balloon payment of \$77,089 due August 2017.	\$ 84,854	\$ 87,585
4.00% unsecured note payable to bank, payable in November 2014. The Roxy has the ability and intent to refinance this debt; therefore, the debt is classified as long term.	40,000	-
5.25% variable note payable to bank, secured by real estate with carrying amounts of \$138,358 and \$147,142 at August 31, 2014 and 2013, respectively, payable in monthly installments of \$1,385 in principal and interest, through March 2022.	<u>105,166</u>	<u>115,100</u>

ROXY PRODUCTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
AUGUST 31, 2014 AND 2013

4. Notes Payable (Cont'd)

	<u>August 31,</u>	
	<u>2014</u>	<u>2013</u>
Total notes payable	230,020	202,685
Less : current portion	<u>8,801</u>	<u>13,487</u>
Total long-term portion of notes payable	<u>\$ 221,219</u>	<u>\$ 189,198</u>

Future payments on notes payable are as follows:

<u>Year Ending</u> <u>August 31,</u>	<u>Amount</u>
2015	\$ 8,801
2016	6,977
2017	7,333
2018	7,708
2019	8,101
Thereafter	<u>191,100</u>
	<u>\$ 230,020</u>

Cash payments for interest were \$10,785 and \$13,217 for the years ended August 31, 2014 and 2013, respectively. Management intends to refinance and consolidate the three outstanding notes payable into one note payable. The consolidated note is expected to accrue interest at a variable rate of 4.99% and be payable in monthly installments for a 20 year period.

5. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the design and construction of a new theater building. Net assets of \$6,265 and \$3,859 were released from donor restrictions by incurring expenses satisfying the purpose specified by donors during the years ended August 31, 2014 and 2013, respectively.

6. In-Kind Donations

The Roxy receives in-kind donations. Included in the statement of activities is \$112,721 and \$98,725 in revenue and expense for advertising-related services received from a local newspaper, magazine and printer for the years ended August 31, 2014 and 2013, respectively.

7. Support

The Roxy received funding from the City of Clarksville totaling \$18,148 and \$20,300 for years ended August 31, 2014 and 2013, respectively.

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)
AUGUST 31, 2014 AND 2013

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.

10. Noncompliance with Donor Restrictions

As of August 31, 2014, the Roxy had \$348,791 of temporarily restricted net assets; however the Roxy only had restricted cash of \$19,212 and restricted contributions receivable \$78,102. The Roxy intends to temporarily restrict the remaining \$251,477 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.

11. Subsequent Event

In January 2015, the board of directors approved a resolution to compensate the managing director and artistic director \$5,000 each for each year of service since 1983 contingent upon the sale of the building and the availability of sale proceeds after all notes payable of the Roxy have been satisfied.