

ROXY PRODUCTIONS, INC.  
AUDITED FINANCIAL STATEMENTS  
YEARS ENDED AUGUST 31, 2010 AND 2009

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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, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Roxy'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 in the first paragraph present fairly, in all material respects, the financial position of the Roxy Productions, Inc. as of August 31, 2010 and 2009, 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 11, 2011

ROXY PRODUCTIONS, INC.  
STATEMENTS OF FINANCIAL POSITION  
AUGUST 31, 2010 AND 2009

ASSETS

	<u>2010</u>	<u>2009</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents - Unrestricted	\$ 4,640	\$ -
Contributions Receivable, Less		
Allowance for Uncollectible Contributions	52,170	16,666
Grant Receivable	-	18,458
Total Current Assets	<u>56,810</u>	<u>35,124</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>153,550</u>	<u>142,679</u>
Net Property and Equipment	<u>178,097</u>	<u>188,968</u>
<u>OTHER ASSETS</u>		
Cash and Cash Equivalents - Temporarily Restricted	<u>69,988</u>	<u>894</u>
Total Assets	<u>\$ 304,895</u>	<u>\$ 224,986</u>

LIABILITIES AND NET ASSETS (DEFICIT)

<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 15,588	\$ 12,876
Payroll Taxes Payable	-	5,967
Line of Credit	90,000	50,573
Current Portion of Notes Payable	15,784	13,412
Total Current Liabilities	<u>121,372</u>	<u>82,828</u>
<u>LONG-TERM LIABILITIES</u>		
Notes Payable	<u>135,112</u>	<u>145,369</u>
Total Liabilities	<u>256,484</u>	<u>228,197</u>
<u>NET ASSETS (DEFICIT)</u>		
Unrestricted	(48,747)	(5,141)
Temporarily Restricted	97,158	1,930
Total Net Assets (Deficit)	<u>48,411</u>	<u>(3,211)</u>
Total Liabilities and Net Assets (Deficit)	<u>\$ 304,895</u>	<u>\$ 224,986</u>

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

ROXY PRODUCTIONS, INC.  
STATEMENTS OF ACTIVITIES  
YEARS ENDED AUGUST 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>UNRESTRICTED NET ASSETS</u>		
Revenue		
Admissions	\$ 239,947	\$ 277,862
Contributions	184,107	136,487
Grants	51,343	54,395
Advertising Space	18,275	2,540
School for the Arts	16,232	8,845
Other	1,902	494
Net Assets Released From Restriction	25,477	26,780
Total Unrestricted Revenue	<u>537,283</u>	<u>507,403</u>
Expenses		
Program		
Actor's Housing	15,600	14,785
Dues	235	1,404
Production	147,607	193,085
Royalties	31,805	30,910
School for the Arts	14,925	8,340
Total Program Expense	<u>210,172</u>	<u>248,524</u>
Management and General		
Advertising	95,112	52,767
Bad Debts	15,000	-
Bank Fees	3,113	2,722
Depreciation	10,871	11,022
Development	11,518	28,444
Insurance	14,976	12,316
Interest	18,116	18,209
Janitorial	3,300	3,700
Maintenance	6,216	2,470
Office	6,871	5,745
Payroll Taxes	8,605	8,365
Postage	1,260	1,302
Professional Services	13,846	12,931
Salaries	112,481	103,629
Travel	2,633	1,653
Utilities	31,623	32,136
Total Management and General Expense	<u>355,541</u>	<u>297,411</u>

ROXY PRODUCTIONS, INC.  
STATEMENTS OF ACTIVITIES (CONTINUED)  
YEARS ENDED AUGUST 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Fundraising	<u>15,176</u>	<u>11,961</u>
Total Expenses	<u>580,889</u>	<u>557,896</u>
Net Increase (Decrease) in Unrestricted Net Assets	<u>(43,606)</u>	<u>(50,493)</u>
<u>TEMPORARILY RESTRICTED NET ASSETS</u>		
Building Fund Contributions	120,705	16,355
Net Assets Released From Restriction	<u>(25,477)</u>	<u>(26,780)</u>
Net Increase (Decrease) in Temporarily Restricted Net Assets	95,228	(10,425)
<u>CHANGE IN NET ASSETS</u>	51,622	(60,918)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>(3,211)</u>	<u>57,707</u>
<u>NET ASSETS (DEFICIT) - END OF YEAR</u>	<u>\$ 48,411</u>	<u>\$ (3,211)</u>

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

ROXY PRODUCTIONS, INC.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED AUGUST 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 51,622	\$ (60,918)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	10,871	11,022
Changes in:		
Contributions Receivable	(35,504)	-
Grant Receivable	18,458	(1,495)
Accounts Payable	2,712	2,316
Payroll Taxes Payable	(5,967)	5,967
Net cash provided by (used in) operating activities	<u>42,192</u>	<u>(43,108)</u>
 <u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from Notes Payable	-	10,500
Repayment of Notes Payable	(7,885)	(10,692)
Proceeds from Line of Credit	39,427	48,000
Repayment of Line of Credit	-	(22,229)
Net cash provided by financing activities	<u>31,542</u>	<u>25,579</u>
 <u>NET INCREASE (DECREASE) IN</u> <u>CASH AND CASH EQUIVALENTS</u>	 73,734	 (17,529)
 <u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	 <u>894</u>	 <u>18,423</u>
 <u>CASH AND CASH EQUIVALENTS - ENDING</u>	 <u>\$ 74,628</u>	 <u>\$ 894</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

a. 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, Montgomery County and the surrounding areas. The Roxy's operations are controlled by a board of directors.

b. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and those variances could be material to the financial statements.

c. 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.

(1) 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.

(2) 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.

(3) 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, 2010 and 2009.

d. Concentrations of Credit Risk

Financial instruments that are potentially subject to significant concentrations of credit risk consist principally of cash and contributions and grants receivable. The Roxy places its cash with federally-insured financial institutions. With respect to contributions and grants



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

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

d. Concentrations of Credit Risk

receivable, credit risk is dispersed across several contributors who are geographically concentrated in the Clarksville, Tennessee service area. Consequently, the Organization's ability to collect the pledges due from contributors is affected by economic and other conditions in this geographic area. The Organization does not require collateral with respect to contributions receivable.

e. Cash and Cash Equivalents

The Roxy considers all highly-liquid debt instruments purchased with maturities of 90 days or less to be cash equivalents.

f. Contributions and Grants Receivable

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.

g. 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, 2010 and 2009, was \$ 15,000 and \$-0-, respectively.

h. 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 life using the straight line method.

i. Accrued Compensated Absences

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

j. In-Kind Donations

The Roxy receives in-kind donations. Included in the statement of activities is \$80,436 and \$41,734 in revenue and expense for advertising related services received from a local newspaper, magazine and printer for the years ended August 31, 2010 and 2009, respectively.

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

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

k. Advertising Costs

All advertising costs are expensed as incurred.

l. Income Tax Status

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.

m. Date of Management's Review

Subsequent events have been evaluated through January 11, 2011, which is the date the financial statements were available to be issued.

2. Cash and Cash Equivalents

At August 31, 2010 and 2009, cash and cash equivalents was represented by bank deposits of \$80,495 and \$8,561, respectively, all of which was covered by FDIC insurance.

3. 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, 2010. 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.

4. Notes Payable

Notes Payable consists of the following:

	<u>August 31,</u>	
	<u>2010</u>	<u>2009</u>
Unsecured, interest-free short term note payable to an individual.	\$ 1,500	\$ 1,500
Unsecured, interest-free short term note payable to an individual.	5,000	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, 2010 was 5.25%.	<u>144,396</u>	<u>152,281</u>
Total Notes Payable	150,896	158,781
Less : Current Portion	<u>15,784</u>	<u>13,412</u>
Total Long-Term Portion of Notes Payable	<u>\$ 135,112</u>	<u>\$ 145,369</u>

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

5. Notes Payable (Cont'd)

Future payments on notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>
2011	15,784	7,342
2012	9,784	6,843
2013	10,309	6,317
2014	10,864	5,762
2015	11,448	5,178
2016-2020	67,165	15,964
2021-2022	25,542	1,117
	<u>\$ 150,896</u>	<u>\$ 48,523</u>

Cash payments for interest were \$18,116 and \$18,209 for the years ended August 31, 2010 and 2009, 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 \$25,477 and \$26,780 were released from donor restrictions by incurring expenses satisfying the purpose specified by donors during the years ended August 31, 2010 and 2009, respectively.

7. Support

The Roxy received funding from the City of Clarksville totaling \$30,000 and \$20,000 for years ended August 31, 2010 and 2009, respectively.

8. 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 SFAS No. 116 have not been satisfied.

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 expires June 1, 2012.