

**FOX CITIES PERFORMING ARTS  
CENTER, INC.**

**FINANCIAL STATEMENTS**

**Year Ended June 30, 2012**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Fox Cities Performing Arts Center, Inc.  
Appleton, Wisconsin

We have audited the accompanying statement of financial position of Fox Cities Performing Arts Center, Inc. (the Center) (a not-for-profit organization) as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the Center's June 30, 2011 financial statements and, in our report dated September 30, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Fox Cities Performing Arts Center, Inc. as of June 30, 2012 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants

Appleton, Wisconsin  
September 13, 2012

FOX CITIES PERFORMING ARTS CENTER, INC.

STATEMENT OF FINANCIAL POSITION  
 June 30, 2012  
 With Comparative Totals as of June 30, 2011

ASSETS	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 1,133,715	\$ 953,954
Accounts receivable	101,406	502,782
Inventory	23,645	32,289
Prepaid expenses	327,536	378,669
Contributions receivable	4,174,614	2,155,764
Room tax receivable	-	6,095,000
Investments	29,729,396	28,301,872
Investments designated for deferred compensation	134,424	120,725
Cash surrender value of life insurance	122,624	111,289
Property and equipment, net	43,609,303	44,963,853
Capitalized bond fees, net of amortization of \$107,117 and \$264,873, respectively	<u>242,067</u>	<u>425,756</u>
Total assets	<u>\$ 79,598,730</u>	<u>\$ 84,041,953</u>
 LIABILITIES AND NET ASSETS		
<u>Liabilities</u>		
Accounts payable	\$ 144,117	\$ 109,670
Accrued:		
Payroll and payroll taxes	122,250	96,926
Interest	5,856	97,660
Other	176,780	393,618
Advance collections	602,666	493,484
Conditional transfers	197,077	180,000
Deferred compensation	134,424	120,725
Bonds payable	<u>36,700,000</u>	<u>42,795,000</u>
Total liabilities	<u>38,083,170</u>	<u>44,287,083</u>
<u>Net assets</u>		
Unrestricted net assets	36,300,447	30,292,466
Temporarily restricted net assets	<u>5,215,113</u>	<u>9,462,404</u>
Total net assets	<u>41,515,560</u>	<u>39,754,870</u>
Total liabilities and net assets	<u>\$ 79,598,730</u>	<u>\$ 84,041,953</u>

See notes to financial statements.

FOX CITIES PERFORMING ARTS CENTER, INC.

STATEMENT OF ACTIVITIES  
 Year Ended June 30, 2012  
 With Comparative Totals for the Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2012</u>	<u>2011</u>
<u>Support and operating revenue</u>				
Gross event revenue	\$ 7,304,399	\$ -	\$ 7,304,399	\$ 12,042,894
Less agent event revenue	<u>(5,300,663)</u>	<u>-</u>	<u>(5,300,663)</u>	<u>(10,379,621)</u>
Net event revenue	2,003,736	-	2,003,736	1,663,273
Fees earned from agent sales	679,908	-	679,908	856,079
Contributions	2,313,049	2,859,812	5,172,861	4,372,081
Special fundraising event	-	-	-	45,640
Investment income	1,855,174	-	1,855,174	1,911,052
Other income	1,889	-	1,889	1,303
Net assets released from restriction	<u>7,107,103</u>	<u>(7,107,103)</u>	<u>-</u>	<u>-</u>
Total support and operating revenue	<u>13,960,859</u>	<u>(4,247,291)</u>	<u>9,713,568</u>	<u>8,849,428</u>
<u>Expenses</u>				
Gross event costs	7,780,562	-	7,780,562	12,258,686
Less agent event costs	<u>(4,620,755)</u>	<u>-</u>	<u>(4,620,755)</u>	<u>(9,523,542)</u>
Net event costs	3,159,807	-	3,159,807	2,735,144
Bond interest expense	329,437	-	329,437	382,821
Letter of credit fees	552,937	-	552,937	550,547
Bond trustee and other bond fees	50,046	-	50,046	41,105
Depreciation and amortization	1,651,199	-	1,651,199	1,485,207
Administrative	1,755,345	-	1,755,345	1,570,301
Costs of direct benefits to donors	-	-	-	59,668
Advancement	<u>454,107</u>	<u>-</u>	<u>454,107</u>	<u>489,109</u>
Total expenses	<u>7,952,878</u>	<u>-</u>	<u>7,952,878</u>	<u>7,313,902</u>
Change in net assets	6,007,981	(4,247,291)	1,760,690	1,535,526
Net assets:				
Beginning of year	<u>30,292,466</u>	<u>9,462,404</u>	<u>39,754,870</u>	<u>38,219,344</u>
End of year	<u>\$ 36,300,447</u>	<u>\$ 5,215,113</u>	<u>\$ 41,515,560</u>	<u>\$ 39,754,870</u>

See notes to financial statements.

FOX CITIES PERFORMING ARTS CENTER, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012

With Comparative Totals for the Year Ended June 30, 2011

	<u>2012</u>	<u>2011</u>
<u>Operating activities</u>		
Change in net assets	\$ 1,760,690	\$ 1,535,526
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,651,199	1,485,207
Net realized and unrealized gains on investments	(773,647)	(717,682)
Gain on cash surrender value of life insurance	(2,051)	-
Contributions of stock	(66,069)	(73,905)
Contribution of life insurance policy at cash surrender value	(9,284)	(111,289)
Change in present value discount on contributions receivable	54,000	47,000
Loss on disposal of property and equipment	5,054	180
Decrease (increase) in:		
Accounts receivable	401,376	(294,932)
Inventory	8,644	(4,770)
Prepaid expenses	51,133	(4,033)
Contributions receivable	(2,072,850)	(641,228)
Increase (decrease) in:		
Accounts payable	34,447	63,146
Accrued liabilities	(283,318)	229,653
Advance collections	109,182	146,559
Conditional transfers	<u>17,077</u>	<u>(17,500)</u>
Net cash provided by operating activities	<u>885,583</u>	<u>1,641,932</u>
<u>Investing activities</u>		
Purchase of property and equipment	(118,014)	(131,098)
Purchases of investments	(2,378,064)	(2,534,084)
Proceeds from sales of investments	<u>1,790,256</u>	<u>1,373,582</u>
Net cash used for investing activities	<u>(705,822)</u>	<u>(1,291,600)</u>
<u>Financing activities</u>		
Payments of bond obligations	(365,000)	(335,000)
Collection of room tax receivable	<u>365,000</u>	<u>335,000</u>
Net cash used for financing activities	<u>-</u>	<u>-</u>
<u>Cash and cash equivalents</u>		
Net increase	179,761	350,332
Beginning of year	<u>953,954</u>	<u>603,622</u>
End of year	<u>\$ 1,133,715</u>	<u>\$ 953,954</u>

See notes to financial statements.

FOX CITIES PERFORMING ARTS CENTER, INC.

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended June 30, 2012

With Comparative Totals for the Year Ended June 30, 2011

	<u>2012</u>	<u>2011</u>
<u>Supplemental cash flow information</u>		
Cash paid for interest	\$ 421,241	\$ 391,793
<u>Non-cash investing and financing activities</u>		
Stock contributions	\$ 66,069	\$ 73,905
Contributions of cash surrender value of life insurance	\$ 9,284	\$ 111,289
Redemption of bonds payable and related room tax receivable	\$5,730,000	\$ -

See notes to financial statements.

FOX CITIES PERFORMING ARTS CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1 - Nature of activities and significant accounting policies

A. Nature of activities

Fox Cities Performing Arts Center, Inc. (the Center) is a Wisconsin non-stock, tax-exempt organization formed to own and operate a not-for-profit performing arts center in Appleton, Wisconsin. The mission of the Center is to serve as a gathering place for the community to engage in educational opportunities and enhance understanding and enjoyment of life through the creation and presentation of the arts. The Center accomplishes this mission by providing a premier venue for performing arts attractions and a dynamic environment for community arts organizations. The Center's support comes primarily from admissions and contributions.

B. Estimates

Management uses estimates and assumptions in preparing financial statements. 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 differ from those estimates.

C. Basis of accounting

The financial statements of the Center have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

D. Basis of presentation

The Center is required to report information regarding its net assets and its activities in the following three classes of net assets:

Unrestricted net assets - net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations.

Temporarily restricted net assets - net assets that result from contributions whose use by the Center is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Center pursuant to those stipulations.

Permanently restricted net assets - net assets that result from contributions whose use by the Center is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Center.

The Center had only unrestricted and temporarily restricted net assets as of June 30, 2012 and 2011.

E. Cash and cash equivalents

For purposes of the statement of cash flows, the Center considers all highly liquid debt instruments with an initial maturity of three months or less, except those held by investment managers, to be cash equivalents.

FOX CITIES PERFORMING ARTS CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
June 30, 2012

Note 1 - Nature of activities and significant accounting policies, continued

F. Accounts receivable

Accounts receivable are stated at the amount the Center expects to collect from outstanding balances. Based upon the Center's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization of losses on balances outstanding at year end will be immaterial.

G. Inventory

Inventory is stated at the lower of cost, determined by the first-in, first-out method, or market.

H. Contributions receivable

Unconditional promises to give are recognized as revenue and as assets in the period the promise is received. Those intended to support the current period are reported as unrestricted net assets if they do not contain donor restrictions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met. Intentions to give are not recognized as revenue unless they are legally enforceable.

I. Investments

The Center carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Quoted market prices in active markets are used as the basis for measurement. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

J. Cash surrender value of life insurance

The Center is the owner and beneficiary of four life insurance policies. The insurance policies are recorded at their net cash surrender value, as reported by the issuing insurance company. The change in the value of the cash surrender value is included in investment income in the statement of activities.

K. Property and equipment and depreciation

All acquisitions and improvements of property and equipment in excess of \$800 are capitalized while all expenditures for repairs and maintenance that do not materially prolong the useful lives of assets are expensed. Purchased property and equipment is carried at cost. Donated property and equipment is carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated lives of the assets.

FOX CITIES PERFORMING ARTS CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

Note 1 - Nature of activities and significant accounting policies, continued

L. Capitalized bond fees

Bond issue costs of \$349,184 are being amortized using the straight-line method over the life of the bonds (34.5 years). Amortization expense (including \$156,496 related to the early redemption of fixed rate redevelopment bonds) was \$183,689 for the year ended June 30, 2012. Amortization expense for the years ending June 30, 2013 through 2017 will be \$10,121 per year.

M. Advance collections

Ticket sales and rental income received in advance for upcoming events are recorded as liabilities. If the event is an event of the Center, the collections will be recognized as revenue in the period that the event occurs. Any costs incurred related to these upcoming events are included in prepaid expenses until the event occurs.

N. Conditional transfers

Sponsorship payments for future events that are conditional on the event occurring and have a right of return are recognized as contributions when the condition is substantially met.

O. Fees earned from agent revenue

The Center holds many events at its facility each year. Tickets sold for live theatrical performances fall into two categories. In the first category, the Center acts as the principal in the transaction. These performances are presented and their presentation is controlled by the Center. In the second category, the Center acts as the agent for the transaction. With these performances, the Center usually receives a fixed usage fee and in some cases the Center also shares in the potential profit or loss of the event. As an agent, the Center provides the facility and essential support staff, but is not responsible for presenting the event, does not establish the ticket prices, and has limited or no credit risk in relation to the tickets. When the Center acts as the agent, the revenue and related event costs are removed from gross event revenue and gross event costs, respectively. Only the net fees earned by the Center from the event are reported as fees earned from agent sales in the statement of activities.

P. Contributions

Unconditional contributions are recognized as revenue when they are promised or received, as applicable, and are available for unrestricted use unless specifically restricted by the donor. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Center.

FOX CITIES PERFORMING ARTS CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
June 30, 2012

Note 1 - Nature of activities and significant accounting policies, continued

Q. Advertising

The Center uses advertising to promote its programs among the audiences it serves. The costs of advertising are expensed as incurred. During the year ended June 30, 2012, advertising costs totaled approximately \$311,200.

R. Presentation of sales tax

The Center collects sales tax from certain customers and remits the entire amount to the appropriate governmental entities. The Center's accounting policy is to exclude the tax collected and remitted from revenues and expenses.

S. Functional allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in Note 9. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

T. Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements with no change in previously reported net assets or changes in net assets.

U. Summarized information

The financial statements include certain summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

V. Income tax status

The Center is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, the Organization is subject to income taxes on any unrelated business taxable income pursuant to Section 511(a). The Organization had no unrelated business income for the year ended June 30, 2012. In addition, the Center qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1). The Center is also exempt from Wisconsin income taxes.

FOX CITIES PERFORMING ARTS CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS, CONTINUED  
 June 30, 2012

Note 1 - Nature of activities and significant accounting policies, continued

V. Income tax status, continued

Penalties and interest assessed by income taxing authorities are included in administrative expenses, if applicable. The Center had no interest and penalties related to income taxes for the year ended June 30, 2012. The Center's federal returns are subject to examination generally for three years after they are filed and its state returns generally for four years after they are filed, if applicable.

W. Subsequent events

The Center has evaluated events and transactions for potential recognition or disclosure in the financial statements through September 13, 2012, the date on which the financial statements were available to be issued.

Note 2 - Concentration of credit risk

The Center maintains its bank accounts at one financial institution in the Appleton area. Aggregate deposits are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Center's cash deposits exceed these federally insured limits at times during the year. The Center has not experienced any losses on these accounts. The management believes the Center is not exposed to any significant credit risk on cash.

Note 3 - Contributions receivable

Contributions receivable are primarily due from individuals and corporations located in the Fox Valley region. Contributions receivable are as follows:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 864,869	\$ 644,286
Receivable in one to five years	3,291,110	1,338,158
Receivable in greater than five years	<u>261,635</u>	<u>362,320</u>
Total unconditional promises to give	4,417,614	2,344,764
Less discount at a rate of 2% to 5%	<u>(243,000)</u>	<u>(189,000)</u>
Present value of contributions receivable	<u>\$ 4,174,614</u>	<u>\$ 2,155,764</u>

The Center considers all of the contributions receivable to be fully collectible; accordingly, no allowance for uncollectible contributions receivable has been established.

At June 30, 2012, the Center also had conditional promises to give of approximately \$840,000 for the sponsorship of future performances. The promises to give are conditional on the performance occurring and will be included in the financial statements in future years when the performances occur.

FOX CITIES PERFORMING ARTS CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED  
June 30, 2012

Note 4 - Endowment funds

The Center has established two board-designated quasi-endowment funds which are not donor-restricted. The endowment funds are classified and reported as unrestricted net assets and are included in investments on the statement of financial position. The first fund is named "Fox Cities Performing Arts Center's Keystone Campaign - Operations Fund". Distributions will be made upon the recommendation of the Board of Directors to support the operations of the Center. The Center's investment objective is to maximize total return consistent with an acceptable level of risk.

Composition of and changes in the Keystone Operations Fund net assets for the year ended June 30, 2012 were as follows:

Board-designated Keystone Operations Fund net assets, beginning of year	\$ 3,257,197
Contributions	485,687
Investment income, net of fees	51,966
Net depreciation	(14,800)
Amount appropriated for expenditure	<u>(1,176,918)</u>
 Board-designated Keystone Operating Fund net assets, end of year	 <u>\$ 2,603,132</u>

The second fund is named "Fox Cities Performing Arts Center's Keystone Campaign - Endowment Fund". Distributions will be made according to the spending policy that will be determined annually by the Board of Directors to support the operations of the Center. The spending policy is expected to be 5% of the average balance of the fund. The Center's investment objective is preservation of principal to allow distribution of income for designated uses.

Composition of and changes in the Keystone Endowment Fund net assets for the year ended June 30, 2012 were as follows:

Board-designated Keystone Endowment Fund net assets, beginning of year	\$ 1,117,240
Contributions	703,586
Investment income, net of fees	60,365
Net appreciation	57,500
Amount appropriated for expenditure	<u>-</u>
 Board-designated Keystone Endowment Fund net assets, end of year	 <u>\$ 1,938,691</u>

FOX CITIES PERFORMING ARTS CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
June 30, 2012

Note 5 - Investments

Investments consist of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Money market fund	\$ 9,800	\$ 5,600
Bond funds	<u>29,719,596</u>	<u>28,296,272</u>
	<u>\$ 29,729,396</u>	<u>\$ 28,301,872</u>

Investment income for the year ended June 30, 2012 consists of the following:

Net realized and unrealized gains	\$ 773,647
Interest and dividends	1,227,424
Investment fees	<u>(145,897)</u>
	<u>\$ 1,855,174</u>

Note 6 - Property and equipment

Property and equipment consist of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 1,351,773	\$ 1,347,080
Building	54,962,087	54,962,087
Operating equipment	1,827,754	1,727,430
Office equipment	189,952	188,562
Software	<u>68,201</u>	<u>68,201</u>
	58,399,767	58,293,360
Less accumulated depreciation	<u>(14,790,464)</u>	<u>(13,329,507)</u>
	<u>\$ 43,609,303</u>	<u>\$ 44,963,853</u>

Depreciation and amortization expense on the above assets was \$1,467,510 for the year ended June 30, 2012.

FOX CITIES PERFORMING ARTS CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS, CONTINUED  
 June 30, 2012

Note 7 - Bonds payable

Bonds payable at June 30, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
City of Appleton, Wisconsin Redevelopment Revenue Bonds (1)	\$ 36,700,000	\$ 36,700,000
City of Appleton, Wisconsin Redevelopment Revenue Bonds (2)	<u>                  -</u>	<u>  6,095,000</u>
 Total bonds payable	 <u>\$ 36,700,000</u>	 <u>\$ 42,795,000</u>

- (1) The City of Appleton, Wisconsin Adjustable Rate Demand Redevelopment Revenue Bonds, Series 2001B mature on June 1, 2036. Interest is due monthly and initially will be at a variable rate (.18% at June 30, 2012). The loan agreement contains the option to convert the bonds to a fixed rate. The bonds are secured by the mortgaged property of the Center and a letter of credit totaling \$37,056,806, which expires on December 18, 2012. The loan agreement contains various covenants. Management believes that the Center was in compliance with these covenants at June 30, 2012.
- (2) The City of Appleton, Wisconsin Fixed Rate Redevelopment Revenue Bonds, Series 2001A were early redeemed on June 29, 2012. Interest was due semi-annually and was at a fixed rate of 4.125% to 4.95% depending on the maturity dates of the bonds. The bonds were secured by a pledge of room taxes (see Note 11) and a letter of credit in the amount equal to the principal and a maximum of 195 days of interest due on the bonds.

Note 8 - Temporarily restricted net assets

Temporarily restricted net assets at June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Purpose restrictions:		
Land (see Note 10)	\$ 1,303,748	\$ 1,303,748
Time restrictions:		
Contributions receivable	3,911,365	2,063,656
Room tax receivable (see Note 11)	<u>                  -</u>	<u>  6,095,000</u>
 Total	 <u>\$ 5,215,113</u>	 <u>\$ 9,462,404</u>

FOX CITIES PERFORMING ARTS CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS, CONTINUED  
 June 30, 2012

Note 9 - Functional classification of expenses

Expenses by function for the years ended June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Program services	\$ 5,888,783	\$ 5,263,777
Supporting activities:		
Management and general	1,379,425	1,359,913
Fundraising	<u>684,670</u>	<u>690,212</u>
	<u>\$ 7,952,878</u>	<u>\$ 7,313,902</u>

Note 10 – Development agreement

The land owned by the Center was originally contributed to the Center by the City of Appleton and the Appleton Redevelopment Authority as part of a development agreement. The contributed land contains a restriction that it must be used for a performing arts center until November 2032. If the Center sells the land or any part of the land to a third party for use other than as a performing arts center, the Center must reimburse the City for the then fair market value of the land sold.

Note 11 – Cooperation agreement

In June 2000, the Center entered into a Cooperation Agreement with the Appleton Redevelopment Authority (ARA); the Fox Cities Area Room Tax Commission; the Cities of Appleton, Kaukauna, and Neenah; the Villages of Kimberly and Little Chute; and the Towns of Menasha, Neenah, and Grand Chute. Under the agreement, the ARA issued \$8.3 million in fixed interest rate bonds with the proceeds going to the Center for the construction of the performing arts center. The Municipalities will collect a two percent room tax and have pledged this tax to pay the debt service of the bonds. Other communities currently without hotels or motels including, the City of Menasha; the Village of Combined Locks; and the Towns of Buchanan, Freedom, Greenville, and Vandebroek have also agreed to collect the tax if a hotel or motel is built in their community. The Center had recorded a net room tax receivable equal to the principal balance of the series 2001A bonds. On June 29, 2012, the \$8.3 million bond issue was early redeemed and refunded with bonds secured only by the pledged room taxes. As such, the bond obligation and related room tax receivable were removed from the Center's statement of financial position at June 30, 2012.

The City of Appleton has also agreed to collect an additional one percent room tax with the intention to give the proceeds to the Center for operation and maintenance expenditures that are not covered by other revenues. The Center received \$111,841 from the City of Appleton during the year ended June 30, 2012 from the additional one percent room tax which is recorded as contributions in the statement of activities.

FOX CITIES PERFORMING ARTS CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

Note 12 - Retirement plan

The Center has a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers substantially all employees of the Center. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code.

Note 13 - Deferred compensation and investments designated for deferred compensation

The Center has a deferred compensation arrangement with a key employee whereby a discretionary amount determined by the board of directors is deferred each year. The deferred compensation, plus earnings thereon, is fully payable upon death, disability or retirement of the employee. Deferred compensation expense totaled \$42,180 for the year ended June 30, 2012.

The Center has established various investment funds in which to accumulate assets to fund the future deferred compensation payments. The Center invests amounts equal to the deferred compensation expense on an annual basis. These investment funds are part of the general assets of the Center and the employee does not have a secured interest in them. However, since it is the Center's intention to use these investments only to fund future deferred compensation payments, they are presented as "Investments designated for deferred compensation" on the statement of financial position. These investments are stated at fair value. Realized and unrealized gains and losses are not separately presented in the statement of activities since such gains and losses accrue to the benefit of the employee.

Investments designated for deferred compensation consist of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Money market funds	\$ -	\$ 1,843
Bond funds	1,974	-
Annuities	1,684	1,634
Stock funds	<u>130,766</u>	<u>117,248</u>
	<u>\$134,424</u>	<u>\$120,725</u>

Note 14 - Fair value measurements

Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurements and Disclosures* clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures on fair value measurements in financial statements. ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Center's market assumptions.

FOX CITIES PERFORMING ARTS CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
June 30, 2012

Note 14 - Fair value measurements, continued

The fair value hierarchy specified by ASC 820 is as follows:

- Level 1 - Quoted prices in active markets for identical assets and liabilities.
- Level 2 - Quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value of the investments described in Notes 5 and 13 are based on quoted market prices of the securities at June 30, 2012.

The following are the major categories of assets measured at fair value on a recurring basis as of June 30, 2012 and 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2012</u>				
Money market funds	\$ 9,800	\$ -	\$ -	\$ 9,800
Bond funds:				
Limited Maturity	2,603,132	-	-	2,603,132
Core	1,741,348	-	-	1,741,348
Intermediate/Long-Term	18,756,191			18,756,191
High Yield	6,620,899	-	-	6,620,899
Guaranteed annuity	1,684	-	-	1,684
Stock funds:				
Large Blend	<u>130,766</u>	<u>-</u>	<u>-</u>	<u>130,766</u>
	<u>\$29,863,820</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$29,863,820</u>
<u>2011</u>				
Money market funds	\$ 7,443	\$ -	\$ -	\$ 7,443
Bond funds:				
Limited Maturity	3,257,197	-	-	3,257,197
Core	22,211,559	-	-	22,211,559
High Yield	2,827,516	-	-	2,827,516
Guaranteed annuity	1,634	-	-	1,634
Stock funds:				
Large Blend	<u>117,248</u>	<u>-</u>	<u>-</u>	<u>117,248</u>
	<u>\$28,422,597</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$28,422,597</u>

FOX CITIES PERFORMING ARTS CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

Note 14 - Fair value measurements, continued

The Center invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investments securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Note 15 – Related party transactions

The Center receives contributions from management and members of its Board of Directors. During the year ended June 30, 2012, management and Board members contributed approximately \$260,000 to the Center. Discounted contributions receivable from management and Board members are approximately \$182,000 and \$555,000 at June 30, 2012 and 2011, respectively.