

**THE COMMUNITY THEATRE OF CEDAR RAPIDS
D/B/A THEATRE CEDAR RAPIDS**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEAR ENDED JULY 31, 2009
(with summarized financial information for the
year ended July 31, 2008)

with

INDEPENDENT AUDITOR'S REPORT

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Brian D. Bast, P.C.

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members of
The Community Theatre of Cedar Rapids
D/B/A Theatre Cedar Rapids
Cedar Rapids, Iowa

I have audited the accompanying statement of financial position of The Community Theatre of Cedar Rapids, D/B/A Theatre Cedar Rapids (the "Theatre"), a nonprofit organization, as of July 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Theatre's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Theatre as of July 31, 2009, 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.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brian D. Bast, P.C.

Certified Public Accountant

The 2008 prior year summarized comparative information and supplementary information has been derived from the Theatre's 2008 financial statements which were compiled by me, and my report thereon, dated January 5, 2009, stated I did not audit or review those financial statements and, accordingly, expressed no opinion or other form of assurance on them.

Handwritten signature of Brian D. Bast, P.C.

April 21, 2010

THE COMMUNITY THEATRE OF CEDAR RAPIDS
D/B/A THEATRE CEDAR RAPIDS
STATEMENT OF FINANCIAL POSITION
July 31, 2009
(with summarized financial information for July 31, 2008)

ASSETS

	2009 <u>(Audited)</u>	2008 <u>(Unaudited)</u>
Current assets:		
Cash and cash equivalents	\$ 42,167	\$ 47,416
Receivables:		
Unconditional promises to give	1,867	1,565
Trade accounts, net of allowance for doubtful accounts of \$2,316 (\$450 in 2008)	18,480	7,915
Grants	<u>14,160</u>	<u>-</u>
Total receivables	<u>34,507</u>	<u>9,480</u>
Prepaid expenses	37,191	26,831
Recoverable income taxes	<u>250</u>	<u>900</u>
Total current assets	114,115	84,627
Property and equipment:		
Equipment	186,817	195,196
Transportation equipment	1,300	1,300
Leasehold improvements	<u>63,161</u>	<u>-</u>
	251,278	196,496
Less accumulated depreciation and amortization	<u>132,650</u>	<u>135,386</u>
Net property and equipment	118,628	61,110
Other assets:		
Cash restricted for investment in equipment	512	512
Deferred income taxes	4,000	-
Interest in assets of the Community Theatre Building Corporation (Note 2)	2,789,724	1,783,963
Collection items (Note 12)	<u>-</u>	<u>-</u>
Total other assets	<u>2,794,236</u>	<u>1,784,475</u>
Total	\$ <u>3,026,979</u>	\$ <u>1,930,212</u>

See accompanying notes to the financial statements.

LIABILITIES AND NET ASSETS (DEFICIENCY)

	2009 (Audited)	2008 (Unaudited)
Current liabilities:		
Demand revolving line of credit payable (Note 3)	\$ -	\$ 9,961
Forgivable note payable (Note 4)	50,000	-
Accounts payable	30,257	15,714
Accrued expenses (Note 10)	82,833	102,330
Deferred revenues	91,057	100,300
Current portion of capital lease obligation (Note 5)	<u>1,952</u>	<u>1,781</u>
Total current liabilities	256,099	230,086
 Long-term liability -		
Capital lease obligation, less current portion (Note 5)	<u>6,172</u>	<u>8,124</u>
Total liabilities	<u>262,271</u>	<u>238,210</u>
 Commitments (Notes 5 and 6)		
 Net assets (deficiency):		
Unrestricted	(61,907)	(169,989)
Temporarily restricted (Note 7)	<u>2,826,615</u>	<u>1,861,991</u>
Total net assets (deficiency)	<u>2,764,708</u>	<u>1,692,002</u>
Total	\$ <u>3,026,979</u>	\$ <u>1,930,212</u>

THE COMMUNITY THEATRE OF CEDAR RAPIDS
D/B/A THEATRE CEDAR RAPIDS
STATEMENT OF ACTIVITIES

Year Ended July 31, 2009

(with summarized financial information for the year ended July 31, 2008)

			Totals	
	Unrestricted	Temporarily Restricted	2009 (Audited)	2008 (Unaudited)
Public support and revenues:				
Production income (Note 9)	\$ 552,602	\$ -	\$ 552,602	\$ 732,004
Public support (Note 9)	483,928	42,270	526,198	370,632
Other income (Note 9)	66,838	-	66,838	123,802
Expiration of time restrictions	83,407	(83,407)	-	-
Total public support and revenues	<u>1,186,775</u>	<u>(41,137)</u>	<u>1,145,638</u>	<u>1,226,438</u>
Expenses:				
Productions (Notes 8 and 9)	736,607	-	736,607	838,087
Educational programming	60,582	-	60,582	10,038
Supporting services (Note 9)	125,337	-	125,337	172,097
Fundraising	93,596	-	93,596	82,342
Total expenses	<u>1,016,122</u>	<u>-</u>	<u>1,016,122</u>	<u>1,102,564</u>
Change in interest in assets of the Community Theatre Building Corporation	<u>-</u>	<u>1,005,761</u>	<u>1,005,761</u>	<u>1,783,963</u>
Change in net assets before extraordinary item	170,653	964,624	1,135,277	1,907,837
Extraordinary item -- loss from flooding (Note 10)	<u>(62,571)</u>	<u>-</u>	<u>(62,571)</u>	<u>(106,235)</u>
Change in net assets	108,082	964,624	1,072,706	1,801,602
Net assets (deficiency), beginning of year	<u>(169,989)</u>	<u>1,861,991</u>	<u>1,692,002</u>	<u>(109,600)</u>
Net assets (deficiency), end of year	\$ <u>(61,907)</u>	\$ <u>2,826,615</u>	\$ <u>2,764,708</u>	\$ <u>1,692,002</u>

See accompanying notes to the financial statements.

THE COMMUNITY THEATRE OF CEDAR RAPIDS
D/B/A THEATRE CEDAR RAPIDS
STATEMENT OF CASH FLOWS

Year Ended July 31, 2009

(with summarized financial information for the year ended July 31, 2008)

	2009 <u>(Audited)</u>	2008 <u>(Unaudited)</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,072,706	\$ 1,801,602
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Extraordinary item – loss from flooding	62,571	100,000
Deferred income taxes	(4,000)	-
Depreciation and amortization	50,939	9,660
Loss on equipment disposals	15,616	3,378
Undistributed portion of change in interest in assets of the Community Theatre Building Corporation	(1,005,761)	(1,783,963)
Changes in operating assets and liabilities:		
Receivables	(25,027)	(8,322)
Prepaid expenses	(10,360)	22,539
Recoverable income taxes	650	(650)
Accounts payable and accrued expenses	(71,025)	(3,453)
Deferred revenues	<u>(9,243)</u>	<u>(65,646)</u>
Net cash flows from operating activities	<u>77,066</u>	<u>75,145</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(120,573)</u>	<u>(28,681)</u>
Cash flows from financing activities:		
Payments on demand revolving line of credit payable	(9,961)	(65,039)
Proceeds from forgivable note payable	50,000	-
Payments on capital lease obligation	<u>(1,781)</u>	<u>(639)</u>
Net cash flows from financing activities	<u>38,258</u>	<u>(65,678)</u>
Net change in cash and cash equivalents	(5,249)	(19,214)
Cash and cash equivalents at beginning of year	<u>47,416</u>	<u>66,630</u>
Cash and cash equivalents at end of year	\$ <u><u>42,167</u></u>	\$ <u><u>47,416</u></u>
Supplemental disclosures:		
Cash paid during the year for income taxes	\$ -	\$ 1,300
Cash paid during the year for interest	1,494	6,219

Supplemental schedule of noncash investing and financing activities:

During 2008, the Theatre entered into capital lease obligations for office equipment totaling \$10,544.

See accompanying notes to the financial statements.

THE COMMUNITY THEATRE OF CEDAR RAPIDS
D/B/A THEATRE CEDAR RAPIDS
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2009 and 2008

1. Nature of organization and significant accounting policies

The Community Theatre of Cedar Rapids, D/B/A Theatre Cedar Rapids (the "Theatre"), is an Iowa nonprofit corporation managed by its season members. The Theatre provides dramatic art activities for participants through main stage, studio, children's and summer theatre productions and provides educational and entertainment services to the Cedar Rapids, Iowa community.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. All financial transactions have been recorded and reported as either: unrestricted, temporarily restricted, or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent 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. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the imputed rental value of the facilities used in the Theatre's operations, the discount rate used to determine the interest in the assets of the Community Theatre Building Corporation, the allowance for uncollectible unconditional promises to give used to determine the interest in the assets of the Community Theatre Building Corporation and the functional allocation of expenses to the various programs and supporting services.

Net assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

Unrestricted – Unrestricted net assets include all net assets which are neither temporarily nor permanently restricted and are available for use in the performance of the activities of the Theatre. If the Board of Directors specifies a purpose where none has been stated by the original donor, such funds are classified as designated, unrestricted funds.

1. Nature of organization and significant accounting policies, continued

Temporarily restricted – Temporarily restricted net assets include contributed net assets for which donor-imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted. Net assets released from restrictions represent net assets that became unrestricted because of expenses incurred during the year or the passage of time satisfied the original restriction.

Permanently restricted – Permanently restricted net assets consist of contributions subject to donor-imposed stipulations that they be maintained permanently by the Theatre. Generally, the donors of these assets would permit the Theatre to use all or part of the income earned on related investments for general or specific purposes. The Theatre did not have any permanently restricted net assets at July 31, 2009 and 2008.

Cash and cash equivalents

For purposes of the Statements of Cash Flows, the Theatre considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Concentration of credit risk

The Theatre maintains its demand deposits at one financial institution that at times has exceeded the Federal Deposit Insurance Corporation ("FDIC") insurance limits. On October 3, 2008, the FDIC temporarily increased its insurance limits from \$100,000 to \$250,000 through December 31, 2008. As of July 31, 2009 and 2008, the Theatre's demand deposits did not exceed the FDIC insurance limit of \$100,000. However, the maximum potential loss that could have resulted from this concentration at any one time during the years ended July 31, 2009 and 2008 would have approximated \$17,500 (audited) and \$52,000 (unaudited), respectively, representing the excess of the Theatre's demand deposits over the amounts that would have been covered by FDIC insurance which were at the \$100,000 limit at the time exceeded.

Concentration of credit risk associated with cash and cash equivalents is considered low due to the credit quality of the issuers of the financial instruments held by the Theatre. Unconditional promises to give and trade accounts receivable are due primarily from local individuals, local corporate entities and large nationally recognized companies. The Theatre performs ongoing credit evaluations of its significant customers and does not require collateral.

1. Nature of organization and significant accounting policies, continued

The Theatre's allowance for doubtful accounts represents an estimate of potential accounts receivable write-offs associated with recognized revenue based on historical trends and factors surrounding the credit risk of specific customers. Trade accounts receivables are recorded at cost and are generally deemed uncollectible and charged to bad debt expense after all collection efforts have been exhausted. As of July 31, 2009 and 2008, accounts receivable of \$3,646 (audited) and \$2,420 (unaudited), respectively, were greater than 90 days past due. An allowance for doubtful accounts of \$2,316 (audited) and \$450 (unaudited) was deemed necessary by management at July 31, 2009 and 2008. The Theatre includes bad debt expense as a component of supporting services expense. Interest income (finance charges) on accounts receivable is recorded on the cash basis.

Approximately 12% (unaudited) of the Theatre's public support and revenues for the year ended July 31, 2008 was provided by Board of Directors' members or the businesses that employ them, as discussed further in Note 9.

Property and equipment

Purchased property and equipment additions are recorded at their original cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor restrictions regarding how long those donated assets must be maintained, the Theatre reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Theatre reclassifies temporarily restricted net assets to unrestricted net assets at that time. Major repairs, improvements and replacements are capitalized. Gains and losses on disposals of property and equipment are recognized in the year of disposition as a component of other income or production and supporting services expense, as applicable. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of the assets. The estimated useful lives range from five to twenty-five years. Amortization of office equipment under capital lease is included with depreciation expense.

Depreciation expense for the years ended July 31, 2009 and 2008, was \$50,939 (audited) and \$9,660 (unaudited) respectively, including equipment under capital lease amortization expense of \$2,109 (audited) and \$703 (unaudited) for the years ended July 31, 2009 and 2008, respectively. Amortization of leasehold improvements for the Theatre's temporary production facility of \$37,095 for the year ended July 31, 2009, has been charged against the flood loss accrual.

1. Nature of organization and significant accounting policies, continued

Equipment under capital lease included in the property and equipment balances consisted of the following at July 31, 2009 and 2008:

	2009 (Audited)	2008 (Unaudited)
Equipment	\$ 10,544	\$ 10,544
Less accumulated amortization	<u>2,812</u>	<u>703</u>
Office equipment under capital lease, net	\$ <u>7,732</u>	\$ <u>9,841</u>

Ticket sales, tuition and deferred revenues

Ticket sales and tuition are recognized as revenue in the period earned when the production or class is held. Deferred revenues arise from advance performance ticket sales and other performance revenues related to future periods. These deferred revenues will be recognized in the periods when the productions are held.

Prepaid expenses

Prepaid expenses represent costs incurred in preparation for the following season's productions. These costs are recognized as expenses when the productions are held.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor-imposed restrictions. Unconditional promises to give are undiscounted and due within one year.

Donated services, materials and facilities

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

The Theatre received donated facilities, advertising, production, accounting and printing services valued at \$112,548 (audited) and \$107,610 (unaudited) for the years ended July 31, 2009 and 2008, respectively. In return for the donated services, the Theatre was required to provide publicity and exposure on behalf of the donors. The Theatre has included these amounts in both contributions and expenses in the Statements of Activities for the years ended July 31, 2009 and 2008.

1. Nature of organization and significant accounting policies, continued

The Theatre estimates that volunteers have donated over 28,500 hours both for program services and supporting services. No amounts have been recognized in the accompanying Statement of Activities because the criteria for recognition of such volunteer efforts have not been satisfied.

Functional allocation of expenses

The costs of providing the various activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the activities and supporting services benefited.

Advertising expense

The Theatre follows the policy of charging the costs, including in-kind contributions, of advertising to expense when the advertisements are first displayed or aired and consist primarily of billboard, newspaper, radio and television ads. Advertising expense for the years ended July 31, 2009 and 2008 was \$127,011 (audited) and \$102,632 (unaudited), respectively.

Sales and use taxes

The Company records sales and use taxes assessed by governmental authorities on a net basis. Under this method, sales and use taxes collected by the Company are excluded from the specific revenue-producing transaction.

Income taxes

On April 10, 1997, the Internal Revenue Service reaffirmed that the Theatre is generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, which provides income tax exemption for corporations organized and operated exclusively for religious, charitable or educational purposes. A similar section of Iowa law also states that the Theatre is generally exempt from state income taxes.

The Theatre's production advertising revenue is considered unrelated business income and is subject to both federal and state corporate income taxes. Income tax expense is included as a component of production expenses. The Theatre recognizes any interest accrued related to its unrecognized tax benefits as a component of production expenses. Penalties incurred in connection with recognized tax benefits related to its production advertising revenue, if any, are expensed as a component of supporting services expenses. Management of the Theatre has not identified, nor is it aware of, any unrecognized tax benefits.

1. Nature of organization and significant accounting policies, continued

Deferred income taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

General business tax credits are accounted for by the flow-through method whereby they reduce income taxes currently payable and the provision for income taxes in the period the assets giving rise to such credits are earned. To the extent such credits are not currently utilized on the Theatre's return, deferred tax assets, subject to considerations about the need for a valuation allowance, are recognized for the carryforward amount.

Prior year summarized information

The financial statements include certain prior year unaudited 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 accounting principles generally accepted in the United States of America. Accordingly, such information should only be read in conjunction with the Theatre's compiled financial statements for the year ended July 31, 2008, from which the summarized information was derived.

Subsequent events

The Theatre has evaluated all subsequent events through April 21, 2010, the date the financial statements were available to be issued.

1. Nature of organization and significant accounting policies, continued

Recent Accounting Pronouncements

In February 2008, the FASB amended SFAS No. 157 by issuing FASB Staff Position ("FSP") FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, and FSP 157-2, *Effective Date of FASB Statement No. 157* (FASB ASC 820-10-65-2). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands the disclosure of fair value measurements. SFAS No. 157 is also applicable to other accounting pronouncements that require or permit fair value measurements, except those relating to lease accounting and accordingly, does not require any new fair value measurements. SFAS No. 157 was effective for financial assets and liabilities for fiscal years beginning after November 15, 2007, and for non-financial assets and liabilities for fiscal years beginning after November 15, 2008, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Theatre adopted the provisions of SFAS No. 157 on August 1, 2008, with respect to financial assets and liabilities measured at fair value. The adoption of SFAS No. 157 did not have a material effect on the Theatre's financial statements for the year ended July 31, 2009. In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* ("FSP FAS 157-3") (FASB ASC 820-10-65-2). FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active and illustrates key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 became effective immediately upon issuance, and its adoption did not have an effect on the Theatre's financial statements. The Theatre currently determines the fair value of property and equipment when assessing long-lived impairments. SFAS No. 157 will be effective for these fair value assessments as of August 1, 2009.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159") (FASB ASC 825-10-15). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Theatre adopted the provisions of SFAS No. 159 on August 1, 2008, and elected not to measure any currently eligible financial assets or liabilities at fair value.

1. Nature of organization and significant accounting policies, continued

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS No. 162") (FASB ASC 105-10-70). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States (the "GAAP Hierarchy"). SFAS No. 162 was effective on November 15, 2008. The adoption of SFAS No. 162 did not result in a change in the Theatre's current accounting policies and practices.

2. Interest in the assets of the Community Theatre Building Corporation

On September 26, 2007, a joint meeting of the Board of Trustees of the Community Theatre Building Corporation (the "Building Corporation") and the Board of Directors of the Theatre approved a \$3.5 million, three-year funding program for the Theatre, entitled The Next Act. \$2.5 million of the proceeds from the Next Act would be used for building improvements, \$700,000 of the proceeds would be used for the establishment of an endowment fund for the Theatre, \$200,000 would be used for updating educational and Theatre programming and the remaining \$100,000 for other costs, such as fundraising. In connection with The Next Act, The Building Corporation was not granted variance power over the unconditional promises to give. The proceeds raised for building improvements will be retained by the Building Corporation and spent on Iowa Theatre Building flood remediation and renovation costs. The proceeds raised for the establishment of the endowment fund will be transferred to and maintained by the Greater Cedar Rapids Foundation.

During the years ended July 31, 2009 and 2008, the Building Corporation received approximately \$926,000 and \$2.3 million of unconditional promises to give on behalf of the Theatre, respectively. The assets raised as part of the funding program have been segregated in separate cash accounts for the benefit of the Theatre. These segregated assets of the Building Corporation are reported in accordance with Statement of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* (FASB ASC 958-20 and 958-605). Building Corporation assets, which are not in the possession of the Theatre, are recorded in the Statement of Financial Position as temporarily restricted net assets and as an interest in the assets of the Building Corporation based on the respective fair value of the segregated Building Corporation's assets.

2. Interest in the assets of the Community Theatre Building Corporation, continued

The major components of the Theatre's interest in the assets of the Community Theatre Building Corporation as of July 31, 2009 and 2008, is as follows:

	2009 (Audited)	2008 (Unaudited)
Cash and cash equivalents	\$ 843,225	\$ 183,963
Unconditional promises to give	1,583,547	1,600,000
Construction in progress	<u>362,952</u>	<u>-</u>
Interest in assets of Community Theatre Building Corporation	\$ <u>2,789,724</u>	\$ <u>1,783,963</u>

The change in the major components of the Theatre's interest in the assets of the Community Theatre Building Corporation for the year ended July 31, 2009 and 2008, is as follows:

	2009 (Audited)	2008 (Unaudited)
Balance at beginning of year	\$ 1,783,963	\$ -
Unconditional promises to give	925,932	2,284,173
Federal Emergency Management Agency flood remediation reimbursements	341,822	-
Change in present value discounts	69,367	(131,506)
Change in allowance for uncollectible promises to give	19,281	(174,985)
Flood remediation costs	(327,346)	(90,000)
Fundraising costs	<u>(23,295)</u>	<u>(103,719)</u>
Balance at end of year	\$ <u>2,789,724</u>	\$ <u>1,783,963</u>

3. Demand revolving line of credit payable

The demand revolving line of credit payable is uncollateralized and payable to a financial institution. The line of credit payable agreement was due January 12, 2010. The demand revolving line of credit payable to the financial institution provides for maximum borrowings of up to \$80,000 for working capital purposes. Outstanding borrowings bear interest at the highest prime rate as published in the most current issue of the Wall Street Journal plus 1%, variable daily, subject to a floor of 6% (combined rate of 6% at July 31, 2009 and 2008) and is payable monthly.

3. Demand revolving line of credit payable, continued

On January 12, 2010, the Theatre entered into a new demand revolving line of credit. The new agreement is due January 12, 2011 and provides for maximum borrowings of up to \$80,000 for general working capital and flood related expenses. Outstanding borrowings under the new agreement bear interest at the highest prime rate as published in the most current issue of the Wall Street Journal plus 1%, variable daily, subject to a floor of 6.5%, and payable monthly.

During the years ended July 31, 2009 and 2008, the Theatre incurred interest expense of \$1,494 (audited) and \$6,219 (unaudited), respectively.

4. Forgivable note payable

The forgivable note payable is uncollateralized and payable to the Cedar Rapids Chamber of Commerce Foundation. The note payable will be forgiven if the Community Theatre Building Corporation completes its renovations and occupies the Iowa Theatre Building by February 15, 2010. Should the Theatre not occupy the Iowa Theatre Building by February 15, 2010, the note payable must be repaid within 45 days after written demand for such payment is received by the Theatre. The management of the Theatre believes it had occupied the Iowa Theatre Building prior to February 15, 2010.

5. Lease commitments

The Theatre leases the facility where its scene shop is located under operating agreements requiring monthly payments of \$1,440 and the payment of utilities, janitorial expenses and insurance. These leases also require the Theatre to pay its pro-rated share of real estate taxes on the land, building and parking lot of \$193 per month. The lease agreements provide for annual increases in the total monthly lease payment of \$40 and expire on October 31, 2014. The Theatre has also entered into a short-term lease for a production facility for \$2,000 per month through March 2010. Finally, the Company has entered into a monthly lease for office equipment that has been capitalized for financial reporting purposes.

5. Lease commitments, continued

The future minimum rental commitments under capital lease obligations and noncancellable operating leases, is as follows:

Year ending July 31:	Noncancellable		Total
	Capital Leases	Operating Leases	
2010	\$ 2,619	\$ 37,829	\$ 40,448
2011	2,619	22,309	24,928
2012	2,619	22,486	25,105
2013	1,746	22,358	24,104
2014	-	22,838	22,838
2015	-	5,739	5,739
Total minimum lease payments	9,603	\$ 133,559	\$ 143,162
Less amounts representing			
Interest	1,479		
	8,124		
Less current portion of			
capital lease obligations	1,952		
Capital lease obligations, less			
current portion	\$ 6,172		

Total rent expense was \$59,141 (audited) and \$103,214 (unaudited) for the years ended July 31, 2009 and 2008, respectively, including \$26,516 (audited) and \$75,000 (unaudited), respectively, in imputed rent expense for temporary office space donated by a local business for 2009 and the Building Corporation for 2008.

6. Other commitments

The Theatre has a potential contingent liability of \$3 million at July 31, 2009, for its guarantee of the indebtedness of the Building Corporation discussed in Note 2. The guarantee is uncollateralized. As of July 31, 2009, no amounts had been borrowed by the Building Corporation. Outstanding borrowings on the debt would bear interest at 6% and mature on October 1, 2011. As repayment of this indebtedness is expected to come from funds provided by the Federal Emergency Management Agency ("FEMA"), the Community Attraction & Tourism grant program of the state of Iowa, grants from the Hall Foundation and the unconditional promises to give held by the Building Corporation, the Theatre has not recorded a liability relative to this guaranteed debt. In the event the Building Corporation defaults on the loan, the Theatre may be required to perform under its guarantee obligation. The Theatre may recover the amount of any guarantee payments from the Building Corporation, although the term of such recovery may extend over several future periods. The Building Corporation's other sources of funds for repayment of the loan would be from rental income from unaffiliated tenants of the Iowa Theatre Building after the renovations and flood remediation efforts have been completed. As of October 31, 2009, there were no unaffiliated tenants of the Iowa Theatre Building.

7. Temporarily restricted net assets

Temporarily restricted net assets consist of the following at July 31, 2009 and 2008:

	2009 (Audited)	2008 (Unaudited)
Purpose restricted	\$ 512	\$ 512
Subsequent year's operations	36,379	77,516
Interest in assets of the Community Theatre Building Corporation	<u>2,789,724</u>	<u>1,783,963</u>
Total temporarily restricted net assets	\$ <u>2,826,615</u>	\$ <u>1,861,991</u>

8. Income taxes

For the years ended July 31, 2009 and 2008, income tax expense on the unrelated business income related to the Theatre's advertising revenues consisted of the following:

	2009 (Audited)	2008 (Unaudited)
Current:		
Federal	\$ 400	\$ 500
State	250	150
Deferred	<u>(4,000)</u>	<u>-</u>
Total income tax expense	\$ <u>(3,350)</u>	\$ <u>650</u>

With few exceptions, the Theatre is no longer subject to U.S. federal and Iowa income tax examinations for tax years ending through July 31, 2006. There are no U.S. federal or Iowa income tax return examinations currently in progress.

The Theatre's deferred tax asset consists of U.S. federal general business credits generated during the year ended July 31, 2009, related to flood wage retention credits earned as a result of continuing to employ persons after the major flooding that occurred in Cedar Rapids, Iowa, as discussed in Note 10. The credits expire if unused on July 31, 2029. The deferred tax asset is recorded net of a valuation allowance of \$23,400. The valuation allowance increased by \$23,400 (audited) during the year ended July 31, 2009.

9. Related party transactions

The Building Corporation is related to the Theatre by virtue of common Board of Director membership. Up to six members of the 16-member Board of Trustees of the Building Corporation can also be members of the Board of Directors of the Theatre. The Building Corporation does not have the power to appoint members of the Theatre's Board of Directors. The Building Corporation is responsible for the ownership, maintenance and improvement of the Iowa Theatre Building used by the Theatre before the flood for production, administrative and educational purposes. The Theatre previously used this building without rental charge. The Building Corporation previously provided for all real estate taxes, insurance, maintenance, improvements, water and sewer as part of the imputed rental expense included in these financial statements. Imputed amounts are prepared by management based on current market rates for similar goods and services. Summarized financial data for the Building Corporation is not available.

The Theatre also receives contributions, advertising revenues, program sponsorships and ticket purchases from members of the Board of Directors or the businesses which employ them. Board members have also individually purchased tickets to various performances. The amount of these individually purchased tickets is not considered by management to be significant.

A summary of related party transactions for the years ended July 31, 2009 and 2008, is as follows:

	2009 <u>(Audited)</u>	2008 <u>(Unaudited)</u>
Imputed rental expense to the Building Corporation	\$ -	\$ 75,000
Public support received from the Building Corporation	-	7,700
Contributions from Board of Directors' members	4,282	10,907
Contributions from employers of the Board of Directors' members	28,500	22,199
Advertising revenues from employers of the Board of Directors' members	1,450	2,875
Program sponsorships from employers of the Board of Directors' members	68,250	108,550
Other revenues from employers of the Board of Directors' members	-	1,186

10. Extraordinary item – loss from flooding

On June 12, 2008, the city of Cedar Rapids experienced massive flooding from the Cedar River. Predominantly all of the downtown area was affected by the flooding. The Theatre's main stage location, the Iowa Theatre Building experienced significant water damage. Due to the flooding and the resulting loss of use of their only main stage location, the Theatre was forced to relocate its main stage to several different locations from June until February 2010. For the 2008-2009 and 2009-2010 production years, the Theatre has rented a temporary main stage location, TCR Lindale, and has incurred significant renovation costs. As the Iowa Theatre Building was located outside of the 500-year flood plain, the loss has been presented as an extraordinary item as provided for by Accounting Principles Board Opinion No. 30 (FASB ASC 225-20-45).

Theatre management estimates the Iowa Theatre Building sustained approximately \$2.5 million in damage. The Theatre anticipates using a portion of the proceeds from The Next Act capital campaign to pay for its flood recovery and renovation plan in conjunction with the previously planned renovation of the Iowa Theatre Building. Through individual, foundation, Federal and state of Iowa grant agreements, Theatre management believes it has secured the necessary funds needed to complete the flood remediation and renovation of the Iowa Theatre Building. The Theatre may need to draw on its demand revolving line of credit payable in order to bridge timing gaps in funding, but does not anticipate the need for any long-term borrowings. See also Note 14.

The significant components of the extraordinary loss from flooding for the years ended June 30, 2009 and 2008, are as follows:

	2009 (Audited)	2008 (Unaudited)
TCR Lindale rent expense	\$ 16,000	\$ 18,000
TCR Lindale utilities	19,000	12,300
Equipment rental	-	14,400
TCR Lindale facility build-out expenses	40,000	28,400
Basis of equipment destroyed	-	15,600
Other expenses	-	17,535
Change in flood loss accrual	(12,429)	-
Extraordinary loss	\$ <u>62,571</u>	\$ <u>106,235</u>

11. Retirement plan

The Theatre participates in a retirement arrangement with its employees intended to qualify as a tax-sheltered annuity plan in accordance with Internal Revenue Code Section 403(b). The arrangement allows Theatre employees to defer a portion of their compensation on a pre-tax basis. The Theatre presently matches employee contributions up to a maximum of 3% of employee compensation. The Theatre's expense under the tax-sheltered annuity plan was \$1,108 (audited) and \$1,587 (unaudited) for the years ended July 31, 2009 and 2008, respectively.

12. Collection items

The Theatre owns a pencil sketch of the Theatre's first playbill done by Grant Wood and a replica of the painting "Tramp Comedian" by Marvin Cone. The Grant Wood playbill pencil sketch has been appraised for \$15,000 (unaudited) on September 1, 2009, and the replica of the Marvin Cone painting has been appraised for \$400. These items are readily available for public exhibition. The Theatre has adopted a policy of not capitalizing collections. Accordingly, no collection items are recognized as assets, whether they are purchased or received as a donation. Purchases of collection items reduce net assets in the period when purchased. Proceeds from sales or insurance recoveries are recorded as increases in net assets when received.

Although the financial statements do not disclose the cumulative cost of collections, each of the items in the collection is preserved, cared for and activities verifying their existence and assessing their condition are performed continuously.

13. Fair value measurements

On September 20, 2006, the Financial Accounting Standards Board released Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157")(FASB ASC 820). SFAS No. 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS No. 157 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted, observable quoted prices in active markets for identical assets or liabilities ("Level 1 measurements") and the lowest priority to unobservable inputs ("Level 3 measurements"). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

- | | |
|---------|---|
| Level 1 | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities; |
| Level 2 | Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.); |
| Level 3 | Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable (including the Company's own assumptions in determining fair value). |

As required by SFAS No. 157, financial assets are classified in their entirety based on the lowest level of any input that is significant to its fair value measurement.

The major component of the Theatre's interest in the assets of the Community Theatre Building Corporation at fair value, as of July 31, 2009, consists of \$1,583,547 of unconditional promises to give. This financial asset was measured using a Level 3 measurement.

13. Fair value measurements, continued

The following table sets forth a summary of the changes in the fair value of the Theatre's Level 3 investment in the assets of the Community Theatre Building Corporation for the year ended July 31, 2009. As reflected in the table below, the net unrealized gain on Level 3 investment assets was \$19,836 for the year ended July 31, 2009.

Balance at August 1, 2008	\$ 1,600,000
Reduction in discount for passage of time	69,367
Reduction in allowance for doubtful unconditional promises to give	19,281
Additions of unconditional promises to give	925,932
Payments received on unconditional promises to give	(1,031,033)
Balance at July 31, 2009	\$ <u>1,583,547</u>

The total gains for the year included in earnings attributable to the change in the reduction in the allowance for doubtful unconditional promises to give relating to assets still held at July 31, 2009.	\$ <u>19,281</u>
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Unconditional promises to give of the Community Theatre Building Corporation are reflected at the present value of estimated future cash flows using a 5% discount rate. The allowance for doubtful unconditional promises to give is based on management's estimate of potential write-offs based current economic trends and factors surrounding the credit risk of the specific donors and inquiry of other local not-for-profit entities' experience.

13. Subsequent event

On April 19, 2010, the Theatre entered into a demand note agreement with a financial institution. The demand note agreement is due July 30, 2010 and provided for a single advance of \$40,000 on April 19, 2010 for working capital and flood related expenses that are awaiting FEMA reimbursement. Outstanding borrowings under the agreement bear interest at the highest prime rate as published in the most current issue of the Wall Street Journal plus 1%, variable daily, subject to a floor of 6.5%, and payable monthly.

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SUPPLEMENTARY INFORMATION

THE COMMUNITY THEATRE OF CEDAR RAPIDS
D/B/A THEATRE CEDAR RAPIDS
SCHEDULE OF PUBLIC SUPPORT AND REVENUES

Year Ended July 31, 2009

(with summarized financial information for the year ended July 31, 2008)

	2009 <u>(Audited)</u>	2008 <u>(Unaudited)</u>
Production income:		
Season tickets	\$ 12,820	\$ 33,552
Business tickets	5,310	17,717
General admissions	319,503	443,266
Sponsorships	158,050	168,800
Gift certificates	840	2,762
Advertising and miscellaneous	34,673	37,278
Concessions	<u>21,406</u>	<u>28,629</u>
Total production income	<u>552,602</u>	<u>732,004</u>
Public support:		
Contributions – public	344,990	212,322
Contribution – Building Corporation	-	7,700
Grants	38,660	18,000
Hotel/Motel tax	30,000	25,000
In-kind contributions – public	112,548	32,610
In-kind contributions – Building Corporation	<u>-</u>	<u>75,000</u>
Total public support	<u>526,198</u>	<u>370,632</u>
Other income:		
Special events and education	58,509	91,374
Rentals	6,758	19,259
Interest income	72	102
Miscellaneous	<u>1,499</u>	<u>13,067</u>
Total other income	<u>66,838</u>	<u>123,802</u>
Total public support and revenues	\$ <u>1,145,638</u>	\$ <u>1,226,438</u>

THE COMMUNITY THEATRE OF CEDAR RAPIDS
D/B/A THEATRE CEDAR RAPIDS
SCHEDULE OF PRODUCTION AND EDUCATION EXPENSES

Year Ended July 31, 2009

(with summarized financial information for the year ended July 31, 2008)

	2009 <u>(Audited)</u>	2008 <u>(Unaudited)</u>
Production expenses:		
Payroll	\$ 182,611	\$ 198,919
Payroll taxes and fringe benefits	52,204	35,771
Sets and props	25,183	29,058
Costumes and makeup	18,403	19,935
Honoraria	103,115	140,396
Royalties and scripts	40,210	61,116
Advertising and promotion	125,722	102,632
Programs	18,187	18,598
Concessions	17,377	17,176
Miscellaneous	11,862	19,170
Lighting and sound	22,275	23,075
Depreciation	8,168	5,165
Loss on equipment disposals	-	2,008
Income taxes	(3,689)	1,503
Repairs and maintenance	6,226	11,436
Utilities and telephone	31,139	31,367
Rental expense	24,886	71,547
Scene shop	14,214	23,717
Truck expense	3,289	2,000
Office expenses	22,376	7,645
Volunteer expenses	3,695	6,684
Facility insurance	<u>9,154</u>	<u>9,169</u>
Total production expenses	\$ <u>736,607</u>	\$ <u>838,087</u>
Education:		
Payroll	\$ 37,141	\$ -
Payroll taxes and fringe benefits	10,618	-
Educational programs	5,322	10,038
Promotion	1,289	-
Office expenses	4,551	-
Depreciation	<u>1,661</u>	<u>-</u>
Total education	\$ <u>60,582</u>	\$ <u>10,038</u>

THE COMMUNITY THEATRE OF CEDAR RAPIDS
D/B/A THEATRE CEDAR RAPIDS
SCHEDULE OF SUPPORTING SERVICES AND FUNDRAISING EXPENSES
Year Ended July 31, 2009
(with summarized financial information for the year ended July 31, 2008)

	2009 <u>(Audited)</u>	2008 <u>(Unaudited)</u>
Supporting services:		
Payroll	\$ 64,997	\$ 96,147
Payroll taxes and fringe benefits	18,581	17,290
Depreciation	2,907	4,495
Loss on equipment disposals	-	1,370
Office expenses	7,964	11,467
Utilities and telephone	3,460	3,485
Repairs and maintenance	692	1,270
Rental expense	2,765	7,950
Credit card expense	11,480	13,814
Legal and accounting	10,069	7,137
Facility insurance	1,017	1,019
Interest expense	1,260	6,219
Payroll tax penalties	145	434
Total supporting services	\$ <u>125,337</u>	\$ <u>172,097</u>
Fundraising:		
Payroll	\$ 24,761	\$ 36,894
Payroll taxes and fringe benefits	7,078	6,634
Special projects	14,006	17,237
Office expenses	3,034	-
Depreciation	1,108	-
Development expenses	43,609	21,577
Total fundraising	\$ <u>93,596</u>	\$ <u>82,342</u>