

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEAR ENDED JULY 31, 2010
(with summarized financial information for the
year ended July 31, 2009)

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, 2010, 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. The prior year summarized comparative information has been derived from the Theatre's 2009 financial statements and, in my report dated April 21, 2010, I expressed an unqualified opinion on those financial statements.

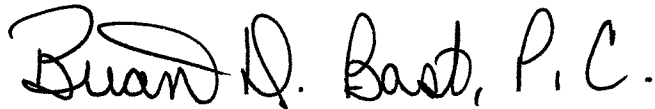
I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration 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 Theatre's internal control over financial reporting. Accordingly, I 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. 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, 2010, 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.

Brian D. Bast, P.C.

Certified Public Accountant

My audit was conducted for the purpose of forming an opinion on the financial statements 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



January 17, 2011

THE COMMUNITY THEATRE OF CEDAR RAPIDS
D/B/A THEATRE CEDAR RAPIDS
STATEMENT OF FINANCIAL POSITION
July 31, 2010
(with summarized financial information for July 31, 2009)

ASSETS

	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 33,101	\$ 42,167
Receivables:		
Unconditional promises to give	-	1,867
Trade accounts, net of allowance for doubtful accounts of \$2,316 in 2009	6,634	18,480
Grants	<u>133,711</u>	<u>14,160</u>
Total receivables	<u>140,345</u>	<u>34,507</u>
Prepaid expenses	54,272	37,191
Recoverable income taxes	<u>-</u>	<u>250</u>
Total current assets	227,718	114,115
Property and equipment:		
Equipment	441,954	186,817
Transportation equipment	1,300	1,300
Leasehold improvements	<u>-</u>	<u>63,161</u>
	443,254	251,278
Less accumulated depreciation and amortization	<u>107,978</u>	<u>132,650</u>
Net property and equipment	335,276	118,628
Other assets:		
Cash restricted for investment in equipment	-	512
Deferred income taxes	9,500	4,000
Interest in assets of the Community Theatre Building Corporation (Note 2)	3,391,478	2,789,724
Website	4,000	-
Collection items (Note 12)	<u>-</u>	<u>-</u>
Total other assets	<u>3,404,978</u>	<u>2,794,236</u>
Total	\$ <u>3,967,972</u>	\$ <u>3,026,979</u>

See accompanying notes to the financial statements.

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current liabilities:		
Demand revolving line of credit payable (Note 3)	\$ -	\$ -
Forgivable note payable (Note 4)	-	50,000
Demand note payable (Note 4)	40,000	-
Accounts payable	32,852	30,257
Accrued expenses (Notes 6 and 10)	16,265	82,833
Accrued income taxes payable	100	-
Deferred revenues	161,747	91,057
Current portion of capital lease obligation (Note 5)	<u>2,140</u>	<u>1,952</u>
Total current liabilities	253,104	256,099
Long-term liability -		
Capital lease obligation, less current portion (Note 5)	<u>4,032</u>	<u>6,172</u>
Total liabilities	<u>257,136</u>	<u>262,271</u>
Commitments (Notes 5 and 6)		
Net assets (deficiency):		
Unrestricted	255,741	(61,907)
Temporarily restricted (Note 7)	<u>3,455,095</u>	<u>2,826,615</u>
Total net assets	<u>3,710,836</u>	<u>2,764,708</u>
Total	\$ <u>3,967,972</u>	\$ <u>3,026,979</u>

THE COMMUNITY THEATRE OF CEDAR RAPIDS
D/B/A THEATRE CEDAR RAPIDS
STATEMENT OF ACTIVITIES
Year Ended July 31, 2010
(with summarized financial information for the year ended July 31, 2009)

			<u>Totals</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2010</u>	<u>2009</u>
Public support and revenues:				
Production income (Note 9)	\$ 680,440	\$ -	\$ 680,440	\$ 552,602
Public support (Note 9)	786,073	63,617	849,690	526,198
Other income (Note 9)	162,770	-	162,770	66,838
Expiration of time and purpose restrictions	<u>36,891</u>	<u>(36,891)</u>	<u>-</u>	<u>-</u>
Total public support and revenues	<u>1,666,174</u>	<u>26,726</u>	<u>1,692,900</u>	<u>1,145,638</u>
Expenses:				
Productions (Notes 8 and 9)	962,050	-	962,050	736,607
Educational programming	95,146	-	95,146	60,582
Supporting services (Note 9)	188,375	-	188,375	125,337
Fundraising	<u>102,955</u>	<u>-</u>	<u>102,955</u>	<u>93,596</u>
Total expenses	<u>1,348,526</u>	<u>-</u>	<u>1,348,526</u>	<u>1,016,122</u>
Change in interest in assets of the Community Theatre Building Corporation (Note 2)	<u>-</u>	<u>601,754</u>	<u>601,754</u>	<u>1,005,761</u>
Change in net assets before extraordinary item	317,648	628,480	946,128	1,135,277
Extraordinary item – loss from flooding (Note 10)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(62,571)</u>
Change in net assets	317,648	628,480	946,128	1,072,706
Net assets (deficiency), beginning of year	<u>(61,907)</u>	<u>2,826,615</u>	<u>2,764,708</u>	<u>1,692,002</u>
Net assets, end of year	\$ <u>255,741</u>	\$ <u>3,455,095</u>	\$ <u>3,710,836</u>	\$ <u>2,764,708</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, 2010

(with summarized financial information for the year ended July 31, 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 946,128	\$ 1,072,706
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Extraordinary item – loss from flooding	-	62,571
Undistributed portion of change in interest in assets of the Community Theatre Building Corporation	(601,754)	(1,005,761)
Deferred income taxes	(5,500)	(4,000)
Loss on equipment disposals	4,836	15,616
Forgiveness of forgivable note payable	(50,000)	-
Depreciation and amortization	56,444	50,939
Changes in operating assets and liabilities:		
Receivables	(105,838)	(25,027)
Prepaid expenses	(17,081)	(10,360)
Recoverable income taxes	250	650
Accounts payable and accrued expenses	(63,973)	(71,025)
Accrued income taxes payable	100	-
Deferred revenues	<u>70,690</u>	<u>(9,243)</u>
Net cash flows from operating activities	<u>234,302</u>	<u>77,066</u>
Cash flows from investing activities:		
Purchases of property and equipment	(277,928)	(120,573)
Change in restricted cash	512	-
Payment of website costs	<u>(4,000)</u>	<u>-</u>
Net cash flows from operating activities	<u>(281,416)</u>	<u>(120,573)</u>
Cash flows from financing activities:		
Payments on demand revolving line of credit payable	-	(9,961)
Proceeds from forgivable note payable	-	50,000
Proceeds from demand note payable	40,000	-
Payments on capital lease obligation	<u>(1,952)</u>	<u>(1,781)</u>
Net cash flows from financing activities	<u>38,048</u>	<u>38,258</u>
Net change in cash and cash equivalents	(9,066)	(5,249)
Cash and cash equivalents at beginning of year	<u>42,167</u>	<u>47,416</u>
Cash and cash equivalents at end of year	\$ <u>33,101</u>	\$ <u>42,167</u>
Supplemental disclosure:		
Cash paid during the year for interest	\$ 3,393	\$ 1,494

See accompanying notes to the financial statements.

THE COMMUNITY THEATRE OF CEDAR RAPIDS
D/B/A THEATRE CEDAR RAPIDS
NOTES TO FINANCIAL STATEMENTS
Year Ended July 31, 2010

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, 2010 and 2009.

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, 2013. On July 21, 2010, the insurance limit was permanently raised to \$250,000. As of July 31, 2010 and 2009, the Theatre's demand deposits did not exceed the FDIC insurance limit. However, the maximum amount of this concentration at any one time during the years ended July 31, 2010 and 2009 would have approximated \$6,000 and \$17,500, respectively, representing the excess of the Theatre's demand deposits over the amounts that would have been covered by FDIC insurance.

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 expected to be collected in future years are recorded at the present value of the estimated future cash flows. Trade accounts receivable are valued at net invoice cost. 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 generally deemed uncollectible and charged to bad debt expense after all collection efforts have been exhausted. As of July 31, 2010 and 2009, accounts receivable of \$3,221 and \$3,646, respectively, were greater than 90 days past due. An allowance for doubtful accounts of \$-0- and \$2,316 was deemed necessary by management at July 31, 2010 and 2009. 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.

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. Purchased and donated costumes are expensed as incurred as a component of productions expenses. 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, 2010 and 2009, was \$56,444 and \$50,939 respectively, including equipment under capital lease amortization expense of \$2,109 for the years ended July 31, 2010 and 2009. Amortization of leasehold improvements for the Theatre's temporary production facility of \$25,996 and \$37,095 for the years ended July 31, 2010 and 2009 has been charged against the flood loss accrual.

Equipment under capital lease included in the property and equipment balances consisted of the following at July 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Equipment	\$ 10,544	\$ 10,544
Less accumulated amortization	<u>4,921</u>	<u>2,812</u>
Equipment under capital lease, net	\$ <u>5,623</u>	\$ <u>7,732</u>

1. Nature of organization and significant accounting policies, continued

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 and grants

Contributions and grants received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor or grantor 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 \$196,229 and \$112,548 for the years ended July 31, 2010 and 2009, respectively. The donated services were used primarily for its main stage theatre productions. 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, 2010 and 2009.

The Theatre estimates that volunteers have donated over 31,500 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. Expenses that are applicable to several programs and/or supporting services and fundraising are allocated based upon facility square footage or estimates of the payroll costs used by the related functions.

1. Nature of organization and significant accounting policies, continued

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, 2010 and 2009 was \$134,179 and \$127,011, respectively.

Sales and use taxes

The Theatre records sales and use taxes assessed by governmental authorities on a net basis. Under this method, sales and use taxes collected by the Theatre 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 productions 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.

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.

1. Nature of organization and significant accounting policies, continued

Prior year summarized information

The financial statements include certain prior year 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 financial statements as of and for the year ended July 31, 2009, from which the summarized information was derived.

Subsequent events

The Theatre has evaluated subsequent events through January 17, 2011, the date the financial statements were available to be issued.

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. 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 Community Foundation (the "GCRCF"). In connection with The Next Act, The Building Corporation was not granted variance power over the unconditional promises to give.

During the years ended July 31, 2010 and 2009, the Building Corporation received approximately \$520,000 and \$926,000 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 as required by the *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* topic of the Financial Accounting Standards Board, Accounting Standards Codification. 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 portion of the Building Corporation's assets segregated or funded by The Next Act proceeds.

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 Building Corporation as of July 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 780,430	\$ 843,225
Unconditional promises to give	675,322	1,583,547
Deposits with GCRCF	104,422	-
Other assets	34,638	-
Property and equipment, net	1,796,666	-
Construction in progress	-	<u>362,952</u>
Interest in assets of Building Corporation	\$ <u>3,391,478</u>	\$ <u>2,789,724</u>

The change in the major components of the Theatre's interest in the assets of the Building Corporation for the year ended July 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 2,789,724	\$ 1,783,963
Unconditional promises to give	519,726	925,932
Federal Emergency Management Agency flood remediation reimbursements	-	341,822
Change in present value discounts	32,982	69,367
Change in allowance for uncollectible promises to give	101,877	19,281
Flood remediation costs	(11,197)	(327,346)
Fundraising costs	<u>(41,634)</u>	<u>(23,295)</u>
Balance at end of year	\$ <u>3,391,478</u>	\$ <u>2,789,724</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 is due on January 12, 2012. 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 6.5% (combined rate of 6.5% at July 31, 2010) and is payable monthly.

During the years ended July 31, 2010 and 2009, the Theatre incurred interest expense of \$3,393 and \$1,494, respectively.

4. Forgivable and demand notes payable

The forgivable note payable was uncollateralized and payable to the Cedar Rapids Chamber of Commerce Foundation. The note payable was forgiven when the Building Corporation completed its renovations and occupied the Iowa Theatre Building on February 15, 2010.

On April 19, 2010, the Theatre entered into a demand note agreement with a financial institution. The demand note agreement is due December 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. The demand note was repaid on September 30, 2010, with proceeds received from current year FEMA reimbursements.

5. Lease commitments

The Theatre leases the facility where its scene shop is located under three separate operating agreements requiring monthly payments of \$1,560 and the payment of utilities, janitorial expenses and insurance. These operating agreements also require the Theatre to pay its pro-rated share of real estate taxes on the land, building and parking lot of \$116 per month. The operating agreements also provide for annual increases in the total monthly lease payments of \$40 and expire on October 31, 2014. The Theatre has also 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:

	Capital <u>Leases</u>	Noncancellable Operating <u>Leases</u>	<u>Total</u>
Year ending July 31:			
2011	\$ 2,619	\$ 22,434	\$ 25,053
2012	2,619	22,569	25,188
2013	1,746	22,358	24,104
2014	-	22,838	22,838
2015	<u>-</u>	<u>5,739</u>	<u>5,739</u>
Total minimum lease payments	6,984	\$ <u>95,938</u>	\$ <u>102,922</u>
Less amounts representing			
Interest	<u>812</u>		
	6,172		
Less current portion of			
capital lease obligations	<u>2,140</u>		
Capital lease obligations, less			
current portion	\$ <u>4,032</u>		

Total rent expense was \$137,053 and \$59,141 for the years ended July 31, 2010 and 2009, respectively, including \$98,801 and \$26,516, in imputed rent expense for temporary office space donated by a local business for 2010 and 2009 and the Building Corporation for 2010, respectively.

6. Other commitments

The Theatre has a potential contingent liability of \$3 million at July 31, 2010, for its guarantee of the indebtedness of the Building Corporation. The guarantee is uncollateralized and unlimited. As of July 31, 2010 and 2009, \$1,075,000 and \$0- had been borrowed by the Building Corporation. Outstanding borrowings on the debt 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-Perrine 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 has accrued a liability of \$10,750 at July 31, 2010, as its obligation to "stand ready" to fund such guarantee. 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 July 31, 2010, 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Purpose restricted	\$ -	\$ 512
Subsequent year's operations	63,617	36,379
Interest in the assets of the Building Corporation	<u>3,391,478</u>	<u>2,789,724</u>
Total temporarily restricted net assets	\$ <u>3,455,095</u>	\$ <u>2,826,615</u>

8. Income taxes

For the years ended July 31, 2010 and 2009, income tax expense on the unrelated business income related to the Theatre's advertising revenues consisted of the following:

	<u>2010</u>	<u>2009</u>
Current:		
Federal	\$ 750	\$ 400
State	350	250
Deferred	<u>(6,250)</u>	<u>(4,000)</u>
Total income tax expense	\$ <u>(5,150)</u>	\$ <u>(3,350)</u>

8. Income taxes, continued

With few exceptions, the Theatre is no longer subject to U.S. federal and Iowa income tax examinations for tax years ended through July 31, 2007. 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 \$17,100 and \$23,400, at July 31, 2010 and 2009, respectively. The valuation allowance (decreased) increased by \$(5,500) and \$23,400 during the years ended July 31, 2010 and 2009, respectively.

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 for productions, education and administrative purposes. The Theatre continues to use this building without rental charge. The Building Corporation provides 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 rental space 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 productions. The amount of these individually purchased tickets is not considered by management to be significant.

9. Related party transactions, continued

A summary of related party transactions for the years ended July 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Imputed rental expense to the Building Corporation	\$ 83,333	\$ -
Contributions from the Building Corporation	23,000	10,800
Contributions from Board of Directors' members	8,405	4,282
Contributions from employers of the Board of Directors' members	23,550	28,500
Advertising revenues from employers of the Board of Directors' members	3,050	1,450
Program sponsorships from employers of the Board of Directors' members	68,000	68,250
Special performance revenues from employers of the Board of Directors' members	8,910	-
Other revenues from employers of the Board of Directors' members	118	-

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 2008 until February 2010. For the 2008-2009 and 2009-2010 production years, the Theatre rented a temporary main stage location, TCR Lindale, and had 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.

Theatre management estimates the Iowa Theatre Building sustained approximately \$2.5 million in damage. The Theatre used 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. These costs were subsequently reimbursed by FEMA. 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 has drawn on its demand revolving line of credit payable in order to bridge timing gaps in funding, but does not anticipate the need for any further long-term borrowings.

10. Extraordinary item – loss from flooding, continued

The significant components of the extraordinary loss from flooding for the year ended July 31, 2009, is as follows:

TCR Lindale rent expense	\$ 16,000
TCR Lindale utilities	19,000
TCR Lindale facility build-out expenses	40,000
Change in flood loss accrual	<u>(12,429)</u>
Extraordinary loss	\$ <u>62,571</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 \$4,405 and \$1,108 for the years ended July 31, 2010 and 2009, respectively.

12. Collection items

The Theatre owns a pencil sketch of its 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

The Theatre follows the *Fair Value Measurements* topic of the Financial Accounting Standards Board, Accounting Standards Codification. This topic establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. This topic 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 are described as follows:

13. Fair value measurements, continued

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 Theatre's own assumptions in determining fair value).

As required by the *Fair Value Measurements* topic, 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 Building Corporation at fair value, as of July 31, 2010 and 2009, consists of \$675,322 and \$1,583,547, respectively, of unconditional promises to give. This financial asset was measured using a Level 3 fair value measurement. The Theatre's analysis of the imputed building rental expense for the Iowa Theatre Building of \$83,333 for the year ended July 31, 2010, is also measured using a Level 3 fair value measurement.

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 Building Corporation for the years ended July 31, 2010 and 2009. As reflected in the table below, the net unrealized gain on Level 3 investment assets was \$101,877 and \$19,836 for the years ended July 31, 2010 and 2009, respectively.

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 1,583,547	\$ 1,600,000
Reduction in discount for passage of time	32,982	69,367
Reduction in allowance for doubtful unconditional promises to give	101,877	19,281
Additions of unconditional promises to give	519,726	925,932
Payments received on unconditional promises to give	<u>(1,562,810)</u>	<u>(1,031,033)</u>
Balance at end of year	\$ <u>675,322</u>	\$ <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

\$ <u>101,877</u>	\$ <u>19,281</u>
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13. Fair value measurements, continued

Unconditional promises to give of the 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.

14. Greater Cedar Rapids Community Foundation designated fund

On April 29, 2010, the Theatre was notified by the GCRCF that it had been made a beneficiary of the Ken and Ortha Harstad Fund, a designated fund established at the GCRCF.

Designated funds are component funds of the GCRCF whose beneficiaries are specified by the donor when the fund is established. A designated fund provides annual payments to support the beneficiary organizations, subject only to the variance power of the GCRCF's Board of Directors. GCRCF is responsible for the distribution of the designated funds. The Ken and Ortha Harstad Fund will remain in effect for ten years from the date of its establishment on December 18, 2008.

As of July 31, 2010, the balance in the Ken and Ortha Harstad Fund at the GCRCF was \$803,684. During the year ended July 31, 2010, the Theatre received \$9,946 as its annual payment which was restricted for use for the Theatre's 2010-2011 fiscal year. This represented approximately 1% of the total fund balance before distributions were made to all beneficiary organizations.

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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, 2010

(with summarized financial information for the year ended July 31, 2009)

	<u>2010</u>	<u>2009</u>
Production income:		
Season tickets	\$ 71,863	\$ 12,820
Business tickets	17,050	5,310
General admissions	385,285	319,503
Sponsorships	128,600	158,050
Gift certificates	-	840
Advertising and miscellaneous	51,263	34,673
Concessions	<u>26,379</u>	<u>21,406</u>
Total production income	<u>680,440</u>	<u>552,602</u>
Public support:		
Contributions – public	243,070	334,190
Contributions – Building Corporation	23,000	10,800
Grants	359,391	38,660
Hotel/Motel tax	28,000	30,000
In-kind contributions – public	112,896	112,548
In-kind contributions – Building Corporation	<u>83,333</u>	<u>-</u>
Total public support	<u>849,690</u>	<u>526,198</u>
Other income:		
Special events and education	132,737	58,509
Rentals	30,033	6,758
Interest income	-	72
Miscellaneous	<u>-</u>	<u>1,499</u>
Total other income	<u>162,770</u>	<u>66,838</u>
Total public support and revenues	\$ <u>1,692,900</u>	\$ <u>1,145,638</u>

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

Year Ended July 31, 2010

(with summarized financial information for the year ended July 31, 2009)

	<u>2010</u>	<u>2009</u>
Production expenses:		
Payroll	\$ 235,566	\$ 182,611
Payroll taxes and fringe benefits	74,426	52,204
Sets and props	37,544	25,183
Costumes and makeup	44,434	18,403
Honoraria	104,735	103,115
Royalties and scripts	61,058	40,210
Advertising and promotion	134,179	125,722
Programs	20,194	18,187
Concessions	9,236	17,377
Miscellaneous	46,290	11,862
Lighting and sound	10,929	22,275
Depreciation	17,964	8,168
Loss on equipment disposals	2,853	-
Income taxes	(5,150)	(3,689)
Repairs and maintenance	7,732	6,226
Utilities and telephone	33,103	31,139
Rental expense	88,328	24,886
Scene shop	24,277	14,214
Truck expense	981	3,289
Office expenses	1,277	22,376
Volunteer expenses	2,636	3,695
Facility insurance	<u>9,458</u>	<u>9,154</u>
Total production expenses	\$ <u>962,050</u>	\$ <u>736,607</u>
Education:		
Payroll	\$ 47,912	\$ 37,141
Payroll taxes and fringe benefits	15,137	10,618
Educational programs	27,603	5,322
Promotion	-	1,289
Office expenses	260	4,551
Loss on equipment disposals	580	-
Depreciation	<u>3,654</u>	<u>1,661</u>
Total education	\$ <u>95,146</u>	\$ <u>60,582</u>

THE COMMUNITY THEATRE OF CEDAR RAPIDS
D/B/A THEATRE CEDAR RAPIDS
SCHEDULE OF SUPPORTING SERVICES AND FUNDRAISING EXPENSES
Year Ended July 31, 2010
(with summarized financial information for the year ended July 31, 2009)

	<u>2010</u>	<u>2009</u>
Supporting services:		
Payroll	\$ 83,845	\$ 64,997
Payroll taxes and fringe benefits	26,490	18,581
Depreciation	6,394	2,907
Loss on equipment disposals	1,016	-
Office expenses	455	7,964
Utilities and telephone	3,678	3,460
Custodial expense	4,786	-
Repairs and maintenance	859	692
Rental expense	9,814	2,765
Credit card expense	20,558	11,480
Legal and accounting	25,782	10,069
Facility insurance	1,051	1,017
Interest expense	3,393	1,260
Penalties and late fees	254	145
Total supporting services	\$ <u>188,375</u>	\$ <u>125,337</u>
Fundraising:		
Payroll	\$ 31,941	\$ 24,761
Payroll taxes and fringe benefits	10,092	7,078
Special projects	10,740	14,006
Office expenses	173	3,034
Depreciation	2,436	1,108
Loss on equipment disposals	387	-
Development expenses	47,186	43,609
Total fundraising	\$ <u>102,955</u>	\$ <u>93,596</u>