

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
D/B/A THEATRE CEDAR RAPIDS**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEAR ENDED JULY 31, 2012  
(with summarized financial information for the  
year ended July 31, 2011)**

**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 of  
The Community Theatre of Cedar Rapids, Inc.  
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, Inc., D/B/A Theatre Cedar Rapids (the "Theatre"), a nonprofit organization, as of July 31, 2012, 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 2011 financial statements and, in my report dated November 17, 2011, I expressed an unqualified opinion on those financial statements.

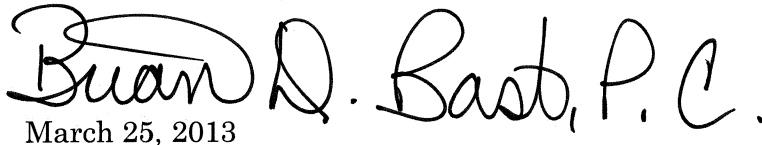
I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## 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.

  
March 25, 2013

THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
D/B/A THEATRE CEDAR RAPIDS  
STATEMENT OF FINANCIAL POSITION  
July 31, 2012  
(with summarized financial information for July 31, 2011)

ASSETS

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 153,746	\$ 84,582
Receivables:		
Unconditional promises to give (Note 3)	20,668	4,863
Trade accounts	29,128	7,605
Grants	-	42,505
Other	<u>5,163</u>	<u>3,924</u>
Total receivables	<u>54,959</u>	<u>58,897</u>
Prepaid expenses and inventories	<u>78,746</u>	<u>49,746</u>
Total current assets	287,451	193,225
Property and equipment:		
Equipment	502,494	506,185
Transportation equipment	<u>1,300</u>	<u>1,300</u>
	503,794	507,485
Less accumulated depreciation and amortization	<u>180,260</u>	<u>149,202</u>
Net property and equipment	323,534	358,283
Other assets:		
Deferred income taxes	9,200	10,800
Unconditional promises to give, noncurrent, net of discount (Note 3)	56,200	-
Interest in assets of the Community Theatre Building Corporation (Note 2)	3,186,772	3,507,077
Other	4,000	2,000
Collection items (Note 11)	<u>-</u>	<u>-</u>
Total other assets	<u>3,256,172</u>	<u>3,519,877</u>
Total	\$ <u>3,867,157</u>	\$ <u>4,071,385</u>

See accompanying notes to the financial statements.

# LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Current liabilities:		
Accounts payable	\$ 44,905	\$ 21,888
Accrued expenses (Note 6)	13,043	8,422
Accrued income taxes payable	-	500
Deferred revenues	196,708	173,175
Current portion of capital lease obligation (Note 5)	<u>1,687</u>	<u>2,345</u>
Total current liabilities	256,343	206,330
 Long-term liability:		
Capital lease obligation, less current portion	<u>-</u>	<u>1,687</u>
Total liabilities	<u>256,343</u>	<u>208,017</u>
 Commitments (Notes 5 and 6)		
 Net assets:		
Unrestricted	424,042	306,816
Temporarily restricted (Note 7)	<u>3,186,772</u>	<u>3,556,552</u>
Total net assets	<u>3,610,814</u>	<u>3,863,368</u>
Total	\$ <u>3,867,157</u>	\$ <u>4,071,385</u>

THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
D/B/A THEATRE CEDAR RAPIDS  
STATEMENT OF ACTIVITIES  
Year Ended July 31, 2012  
(with summarized financial information for the year ended July 31, 2011)

			<u>Totals</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2012</u>	<u>2011</u>
Public support and revenues:				
Production income (Note 9)	\$ 972,783	\$ -	\$ 972,783	\$ 767,345
Public support (Note 9)	825,261	-	825,261	653,018
Other income (Note 9)	214,166	-	214,166	218,481
Expiration of time and purpose restrictions	<u>49,475</u>	<u>(49,475)</u>	<u>-</u>	<u>-</u>
Total public support and revenues	<u>2,061,685</u>	<u>(49,475)</u>	<u>2,012,210</u>	<u>1,638,844</u>
Expenses:				
Productions (Notes 8 and 9)	1,340,676	-	1,340,676	1,126,299
Educational programming (Note 9)	154,443	-	154,443	122,915
Supporting services (Note 9)	207,214	-	207,214	178,849
Fundraising (Note 9)	<u>242,126</u>	<u>-</u>	<u>242,126</u>	<u>173,848</u>
Total expenses	<u>1,944,459</u>	<u>-</u>	<u>1,944,459</u>	<u>1,601,911</u>
Change in net assets from operations	117,226	(49,475)	67,751	36,933
Change in interest in assets of the Community Theatre Building Corporation (Note 2)	<u>-</u>	<u>(320,305)</u>	<u>(320,305)</u>	<u>115,599</u>
Change in net assets	117,226	(369,780)	(252,554)	152,532
Net assets, beginning of year	<u>306,816</u>	<u>3,556,552</u>	<u>3,863,368</u>	<u>3,710,836</u>
Net assets, end of year	\$ <u>424,042</u>	\$ <u>3,186,772</u>	\$ <u>3,610,814</u>	\$ <u>3,863,368</u>

See accompanying notes to the financial statements.

THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
D/B/A THEATRE CEDAR RAPIDS  
STATEMENT OF CASH FLOWS  
Year Ended July 31, 2012  
(with summarized financial information for the year ended July 31, 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (252,554)	\$ 152,532
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Undistributed portion of change in interest in assets of the Community Theatre Building Corporation	320,305	(115,599)
Deferred income taxes	1,600	(1,300)
Loss on equipment and website disposals	8,404	4,117
Depreciation and amortization	48,621	44,468
Changes in operating assets and liabilities:		
Receivables	(52,262)	81,448
Prepaid expenses and inventories	(29,000)	4,526
Accounts payable and accrued expenses	27,638	(18,807)
Accrued income taxes payable	(500)	400
Deferred revenues	<u>23,533</u>	<u>11,428</u>
Net cash flows from operating activities	<u>95,785</u>	<u>163,213</u>
Cash flows from investing activities:		
Purchases of property and equipment	(20,276)	(67,592)
Payment of website costs	<u>(4,000)</u>	<u>(2,000)</u>
Net cash flows from operating activities	<u>(24,276)</u>	<u>(69,592)</u>
Cash flows from financing activities:		
Repayment of demand note payable	-	(40,000)
Payments on capital lease obligation	<u>(2,345)</u>	<u>(2,140)</u>
Net cash flows from financing activities	<u>(2,345)</u>	<u>(42,140)</u>
Net change in cash and cash equivalents	69,164	51,481
Cash and cash equivalents at beginning of year	<u>84,582</u>	<u>33,101</u>
Cash and cash equivalents at end of year	\$ <u>153,746</u>	\$ <u>84,582</u>
Supplemental disclosure:		
Cash paid during the year for interest	\$ 531	\$ 1,079

See accompanying notes to the financial statements.



THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
D/B/A THEATRE CEDAR RAPIDS  
NOTES TO FINANCIAL STATEMENTS  
Year Ended July 31, 2012

1. Nature of organization and significant accounting policies

The Community Theatre of Cedar Rapids, Inc., D/B/A Theatre Cedar Rapids (the "Theatre"), is an Iowa nonprofit corporation managed by its Board of Directors. 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 and the functional allocation of expenses to the various programs, supporting services and fundraising activities.

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, 2012 and 2011.

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 of \$250,000. Effective June 13, 2011, the Dodd-Frank Act provided for unlimited FDIC coverage of non-interest bearing accounts retroactive back to December 31, 2010, and until December 31, 2012. On January 1, 2013, the FDIC insurance limit for non-interest bearing accounts will revert back to \$250,000. As of July 31, 2012 and 2011, 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, 2012 and 2011 would have approximated \$39,100 and \$-0-, 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, 2012 and 2011, accounts receivable of \$10,110 and \$1,343, respectively, were greater than 90 days past due. The allowance for doubtful accounts deemed necessary by management at July 31, 2012 and 2011 was not material to the financial statements. 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 production 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, 2012 and 2011 was \$48,621 and \$44,468, respectively including equipment under capital lease amortization expense of \$2,109 and \$2,108 for the years ended July 31, 2012 and 2011, respectively.

Equipment under capital lease included in the property and equipment balances consisted of the following at July 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Equipment	\$ 10,544	\$ 10,544
Less accumulated amortization	<u>9,138</u>	<u>7,029</u>
Equipment under capital lease, net	\$ <u>1,406</u>	\$ <u>3,515</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 and inventories

Prepaid expenses represent costs incurred in preparation for the following season's productions. These costs are recognized as expenses when the productions are held. Merchandise inventories are stated at the lower of cost using the first-in, first-out ("FIFO") method, or market. Inventories were \$2,369 and \$-0- at July 31, 2012 and 2011, respectively.

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 recorded in the period received. The allowance for uncollectible unconditional promises to give is based on management's estimate of potential write-offs based on current economic trends and factors surrounding the credit risk of the specific donors and inquiry of other local not-for-profit entities' experience.

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 \$346,784 and \$291,855 for the years ended July 31, 2012 and 2011, 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, 2012 and 2011.

The Theatre estimates that volunteers have donated over 47,000 hours (35,500 for 2011), 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.

1. Nature of organization and significant accounting policies, continued

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 primarily based upon estimates of the payroll costs used by the related functions.

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, 2012 and 2011 was \$163,807 and \$124,800, 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 production expenses.

When tax returns are filed, it is highly certain that some positions taken will be sustained upon examination by the respective taxing authorities, while other tax positions are subject to uncertainty about the merits of the tax position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position would be sustained upon examination, including the resolution of appeals or litigation processes, if any. Management of the Theatre has not identified, nor is it aware of, any material unrecognized tax benefits that are required to be recorded. With few exceptions, the Theatre is no longer subject to U.S. federal or Iowa income tax examinations for tax years ended through July 31, 2009. There are no U.S. federal or Iowa income tax return examinations currently in progress.

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 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, 2011, from which the summarized information was derived.

Subsequent events

The Theatre has evaluated subsequent events through March 25, 2013, 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 were 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 have been 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.

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

During the years ended July 31, 2012 and 2011, the Building Corporation received approximately \$2,400 and \$3,400 of unconditional promises to give on behalf of the Theatre, respectively. 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.

The major components of the Theatre's interest in the assets of the Building Corporation as of July 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Unconditional promises to give, net	\$ 38,159	\$ 92,547
Deposits with the GCRCF	778,624	643,652
Property and equipment, net	<u>2,369,989</u>	<u>2,770,878</u>
Interest in assets of Building Corporation	\$ <u>3,186,772</u>	\$ <u>3,507,077</u>

The unconditional promises to give are stated net of an unamortized discount of \$2,683 and \$8,261 at July 31, 2012 and 2011, respectively, and an allowance for uncollectible unconditional promises to give of \$3,350 and \$8,500 at July 31, 2012 and 2011, respectively. See also Note 12 for related fair value disclosures for the Theatre's interest in the assets of the Building Corporation and for a reconciliation of the changes in the unconditional promises to give and deposits with the GCRCF components of the Theatre's interest in the assets of the Building Corporation.

## 3. Unconditional promises to give

Unconditional promises to give as of July 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Due in less than one year	\$ -	\$ 4,863
Due in one to five years	<u>89,758</u>	<u>-</u>
Total	89,758	4,863
Less: discount on multi-year unconditional promises to give	(8,390)	-
Less: allowance for uncollectible unconditional promises to give	<u>(4,500)</u>	<u>-</u>
Unconditional promises to give, net	76,868	4,863
Less: current portion	<u>(20,668)</u>	<u>(4,863)</u>
Unconditional promises to give, noncurrent	\$ <u>56,200</u>	\$ <u>-</u>

3. Unconditional promises to give, continued

Unconditional promises to give expected to be collected in more than one year from July 31, 2012, are discounted at a rate of return respective to the year the unconditional promise to give was originally promised. Current year unconditional promises to give are recorded using a discount rate of 5%. Unconditional promises to give are recorded net of an allowance for uncollectible unconditional promises to give of \$4,500 and \$-0- at July 31, 2012 and 2011, respectively.

4. 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 on January 12, 2013. The demand revolving line of credit payable to the financial institution provided 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, 2012) and was payable monthly.

During the years ended July 31, 2012 and 2011, the Theatre incurred interest expense of \$531 and \$1,079, respectively.

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:			
2013	\$ 1,746	\$ 23,385	\$ 25,131
2014	-	23,865	23,865
2015	-	6,767	6,767
2016	-	<u>1,027</u>	<u>1,027</u>
Total minimum lease payments	1,746	\$ <u>55,044</u>	\$ <u>56,790</u>
Less amounts representing interest	<u>59</u>		
Current portion of capital lease obligations	\$ <u>1,687</u>		

Total rent expense was \$254,451 and \$234,162 for the years ended July 31, 2012 and 2011, respectively, including \$228,000 and \$210,000, in imputed rent expense for office space donated by the Building Corporation for 2012 and 2011.

6. Other commitments

The Theatre had a potential contingent liability of up to \$750,000 at July 31, 2012, for its guarantee of the indebtedness of the Building Corporation. The guarantee is uncollateralized and unlimited. As of July 31, 2012 and 2011, \$377,000 and \$100,000 were outstanding. Outstanding borrowings on the debt bear interest at 5.5% (6% at July 31, 2011) and matured on October 3, 2012, when the outstanding balance was repaid by the Building Corporation. The loan was collateralized by an assignment of rents and profits by the Building Corporation and the unconditional promises to give from The Next Act as disclosed in Note 2. The Theatre has accrued a liability of \$3,770 and \$1,000 at July 31, 2012 and 2011, respectively, as its obligation to "stand ready" to fund the guarantee.

7. Temporarily restricted net assets

Temporarily restricted net assets consist of the following at July 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Subsequent year's operations	\$ -	\$ 49,475
Interest in the assets of the Building Corporation	<u>3,186,772</u>	<u>3,507,077</u>
Total temporarily restricted net assets	\$ <u>3,186,772</u>	\$ <u>3,556,552</u>

8. Income taxes

For the years ended July 31, 2012 and 2011, income tax expense on the unrelated business income related to the Theatre's advertising revenues consisted of the following:

	<u>2012</u>	<u>2011</u>
Current:		
Federal	\$ -	\$ 1,000
State	(55)	500
Deferred	<u>1,600</u>	<u>(2,300)</u>
Total income tax expense	\$ <u>1,545</u>	\$ <u>(800)</u>

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 during 2008. The credits expire if unused on July 31, 2029. The deferred tax asset is recorded net of a valuation allowance of \$16,400 and \$14,800, at July 31, 2012 and 2011, respectively. The valuation allowance increased(decreased) by \$1,600 and \$(1,300) during the years ended July 31, 2012 and 2011, 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, if any, and improvements 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.

9. Related party transactions, continued

Summarized unaudited financial data for the Building Corporation as of and for the years ended July 31, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Assets:		
Cash and cash equivalents	\$ 10,872	\$ 105,637
Unconditional promises to give, net	38,159	92,547
FEMA grant receivable	-	348,686
Deposits with GCRCF	953,819	643,652
Other assets, net	33,272	32,868
Property and equipment, net	10,098,882	9,909,617
Accumulated depreciation	<u>(2,304,630)</u>	<u>(1,866,864)</u>
Total assets	\$ <u>8,830,374</u>	\$ <u>9,266,143</u>
Liabilities and net assets:		
Accounts payable and accruals	\$ 1,809	\$ 21,365
Line of credit payable	377,000	100,000
Permanently restricted net assets	778,624	643,652
Unrestricted net assets	<u>7,672,941</u>	<u>8,501,126</u>
Total liabilities and net assets	\$ <u>8,830,374</u>	\$ <u>9,266,143</u>
Revenues:		
FEMA grant	\$ -	\$ 348,686
Other grants	19,833	224,742
Investment return, net	(20,495)	30,210
Contributions - public	2,401	3,432
Interest income	13,473	6,549
Gain on sale of parking lot	104,168	-
Other	<u>-</u>	<u>2,339</u>
Total revenues	119,380	615,958
Expenses:		
Property	5,022	41,684
Contributions	35,000	-
Depreciation	447,379	435,433
Supporting services	(13,457)	23,149
Interest	14,197	30,533
Write-off of FEMA grant receivable	324,452	-
Fundraising expenses	<u>-</u>	<u>20,262</u>
Total expenses	<u>812,593</u>	<u>551,061</u>
Change in net assets	\$ <u>(693,213)</u>	\$ <u>64,897</u>

9. Related party transactions, continued

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.

A summary of related party transactions for the years ended July 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Imputed rental expense to the Building Corporation	\$ 228,000	\$ 210,000
Contributions from the Building Corporation	37,466	3,500
Contributions from Board of Directors' members	15,275	9,251
Contributions from employers of the Board of Directors' members	7,730	14,675
Advertising revenues from employers of the Board of Directors' members	3,600	2,065
Program sponsorships from employers of the Board of Directors' members	141,000	94,000
Special performance revenues from employers of the Board of Directors' members	5,952	5,806
Other revenues from employers of the Board of Directors' members	-	1,696

10. 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 \$6,579 and \$5,804 for the years ended July 31, 2012 and 2011, respectively.

## 11. 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. The Grant Wood playbill pencil sketch is available for public viewing at the Cedar Rapids Museum of Art. The replica of the painting “Tramp Comedian” is available for public viewing in the Theatre’s Fed Hedges Library. 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.

## 12. 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:

- |         |   |
|---------|---|
| 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.

Unconditional promises to give totaling \$76,868 at July 31, 2012, were measured using a Level 3 fair value measurement. The Theatre’s analysis of the imputed building rental expense for the Iowa Theatre Building of \$228,000 and \$210,000 for the years ended July 31, 2012 and 2011, respectively, is also measured using a Level 3 fair value measurement. There were no transfers between Levels 1 or 2 during the years ended July 31, 2012 or 2011.

## 12. Fair value measurements, continued

The following table sets forth a summary of the changes in the Level 3 fair value measurements of the Theatre's unconditional promises to give for the year ended July 31, 2012. As reflected in the table below, the net unrealized loss on the Level 3 measurement of unconditional promises to give was \$4,500 for the year ended July 31, 2012.

Balance at beginning of year	\$ -
Additions of unconditional promises to give	116,225
Increase in discount for passage of time	(8,390)
Increase in allowance for uncollectible unconditional promises to give	(4,500)
Payments received on unconditional promises to give	<u>(26,467)</u>
Balance at end of year	\$ <u>76,868</u>

The total losses for the year included in earnings attributable to the change in the allowance for uncollectible unconditional promises to give relating to assets still held	\$ <u>(4,500)</u>
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The Theatre's interest in the assets of the Building Corporation at fair value, as of July 31, 2012 and 2011, consisted of \$38,159 and \$92,548, respectively, of unconditional promises to give and deposits with the GCRCF of \$778,624 and \$643,652 at July 31, 2012 and 2011, respectively. These financial assets were measured using Level 3 fair value measurements either in total or partially. There were no transfers between Levels 1 or 2 during the years ended July 31, 2012 or 2011 for these financial assets.

## 12. 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 unconditional promises to give of the Building Corporation for the years ended July 31, 2012 and 2011. As reflected in the table below, the net unrealized gain on Level 3 investment assets was \$5,150 and \$80,870 for the years ended July 31, 2012 and 2011, respectively.

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 92,547	\$ 675,322
Reduction in discount for passage of time	3,022	20,896
Reduction in allowance for uncollectible unconditional promises to give	5,150	80,870
Additions of unconditional promises to give	2,401	3,432
Payments received on unconditional promises to give	<u>(64,961)</u>	<u>(687,973)</u>
Balance at end of year	\$ <u>38,159</u>	\$ <u>92,547</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>5,150</u>	\$ <u>80,870</u>
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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 uncollectible unconditional promises to give is based on management's estimate of potential write-offs based on current economic trends and factors surrounding the credit risk of the specific donors and inquiry of other local not-for-profit entities' experience.

The following table sets forth a summary of the changes in the fair value of the Theatre's Level 3 investment in the deposits with the GCRCF maintained by the Building Corporation for the years ended July 31, 2012 and 2011. As reflected in the table below, the net unrealized gain (loss) on Level 3 investment assets was \$(35,175) and \$23,420 for the years ended July 31, 2012 and 2011, respectively.

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 643,652	\$ 104,422
Contributions	150,773	504,297
Interest and dividends	12,784	12,467
Realized gains	21,991	282
Unrealized gains (losses)	(35,175)	23,420
Investment management fees	(4,793)	(1,236)
Grants paid	<u>(10,608)</u>	<u>-</u>
Balance at end of year	\$ <u>778,624</u>	\$ <u>643,652</u>

12. Fair value measurements, continued

The audited financial statements of the GCRCF, as of and for the year ended December 31, 2011 and 2010, are available upon request from the GCRCF, 324 Third Street, S.E., Cedar Rapids, Iowa 52401-1841.

13. 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, 2012 and 2011, the balance in the Ken and Ortha Harstad Fund at the GCRCF was \$722,000 and \$826,353, respectively. During the years ended July 31, 2012 and 2011, the Theatre received \$9,723 and \$11,239 as its annual payment. This represented approximately 1.2% and 1.4% of the total fund balance before distributions were made to all beneficiary organizations for the years ended July 31, 2012 and 2011, respectively.

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## SUPPLEMENTARY INFORMATION

THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
D/B/A THEATRE CEDAR RAPIDS  
SCHEDULE OF PUBLIC SUPPORT AND REVENUES  
Year Ended July 31, 2012  
(with summarized financial information for the year ended July 31, 2011)

	<u>2012</u>	<u>2011</u>
Production income:		
Season tickets	\$ 114,396	\$ 83,146
Business tickets	21,539	37,098
General admissions	506,640	418,400
Sponsorships	236,100	173,350
Advertising and miscellaneous	72,143	45,294
Concessions	<u>21,965</u>	<u>10,057</u>
Total production income	<u>972,783</u>	<u>767,345</u>
Public support:		
Contributions – public	383,780	247,158
Contributions – Building Corporation	37,466	3,500
Grants	16,731	60,505
Hotel/Motel tax	40,500	50,000
In-kind contributions – public	118,784	81,855
In-kind contributions – Building Corporation	<u>228,000</u>	<u>210,000</u>
Total public support	<u>825,261</u>	<u>653,018</u>
Other income:		
Special events and education sponsorships	126,788	120,478
Rentals	87,294	97,915
Interest	<u>84</u>	<u>88</u>
Total other income	<u>214,166</u>	<u>218,481</u>
Total public support and revenues	\$ <u>2,012,210</u>	\$ <u>1,638,844</u>

THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
D/B/A THEATRE CEDAR RAPIDS  
SCHEDULE OF PRODUCTION EXPENSES

Year Ended July 31, 2012

(with summarized financial information for the year ended July 31, 2011)

	<u>2012</u>	<u>2011</u>
Payroll	\$ 319,861	\$ 300,440
Payroll taxes and fringe benefits	91,830	85,347
Sets and props	52,606	39,907
Costumes and makeup	55,013	38,452
Honoraria	142,336	94,448
Royalties and scripts	58,734	64,796
Advertising and promotion	155,617	118,540
Programs	28,598	20,917
Concessions	18,628	10,062
Box office expenses	22,039	19,130
Miscellaneous production expenses	15,844	10,573
Lighting and sound	13,717	8,221
Depreciation	30,436	28,865
Loss on equipment disposals	4,009	2,673
Income taxes	1,545	(800)
Repairs and maintenance	23,023	17,252
Utilities and telephone	48,595	49,464
Rental expense	142,723	136,311
Custodial expense	11,055	5,812
Scene shop rent and expenses	23,272	24,545
Truck expense	629	431
Office expenses	34,012	22,895
Credit card expense	21,368	12,285
Volunteer expenses	8,709	5,822
Facility insurance	<u>16,477</u>	<u>9,911</u>
Total production expenses	\$ <u>1,340,676</u>	\$ <u>1,126,299</u>

THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
D/B/A THEATRE CEDAR RAPIDS  
SCHEDULE OF EDUCATION EXPENSES  
Year Ended July 31, 2012  
(with summarized financial information for the year ended July 31, 2011)

	<u>2012</u>	<u>2011</u>
Payroll	\$ 39,977	\$ 40,176
Payroll taxes and fringe benefits	11,477	11,413
Educational programs	52,024	27,882
Rental expense	17,838	18,228
Repairs and maintenance	2,856	2,274
Custodial expense	4,020	2,113
Utilities and telephone	6,074	6,615
Facility insurance	2,059	1,325
Office expenses	4,251	2,983
Advertising and promotion	4,914	3,743
Credit card expense	1,688	931
Box office expenses	2,960	1,016
Loss on equipment disposals	501	356
Depreciation	<u>3,804</u>	<u>3,860</u>
Total education	\$ <u>154,443</u>	\$ <u>122,915</u>

THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
D/B/A THEATRE CEDAR RAPIDS  
SCHEDULE OF SUPPORTING SERVICES EXPENSES

Year Ended July 31, 2012

(with summarized financial information for the year ended July 31, 2011)

	<u>2012</u>	<u>2011</u>
Payroll	\$ 76,446	\$ 68,641
Payroll taxes and fringe benefits	21,947	19,499
Depreciation	7,274	6,594
Office expenses	8,129	5,097
Utilities and telephone	11,614	11,301
Custodial expense	4,020	2,114
Repairs and maintenance	5,461	3,885
Rental expense	38,702	34,217
Legal and accounting	23,825	22,473
Facility insurance	3,938	2,264
Box office expenses	1,480	1,015
Loss on equipment disposals	958	611
Interest expense	3,301	1,079
Penalties and late fees	<u>119</u>	<u>59</u>
Total supporting services	\$ <u>207,214</u>	\$ <u>178,849</u>

THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
D/B/A THEATRE CEDAR RAPIDS  
SCHEDULE OF FUNDRAISING EXPENSES  
Year Ended July 31, 2012  
(with summarized financial information for the year ended July 31, 2011)

	<u>2012</u>	<u>2011</u>
Payroll	\$ 74,692	\$ 53,599
Payroll taxes and fringe benefits	21,444	15,226
Special projects	22,290	13,062
Rental expense	33,328	24,318
Utilities and telephone	11,348	8,825
Office expenses	7,942	3,980
Credit card expense	9,932	4,589
Repairs and maintenance	5,336	3,033
Advertising and promotion	3,276	2,496
Facility insurance	3,848	1,768
Custodial expense	1,005	528
Box office expenses	4,441	1,015
Depreciation	7,107	5,149
Loss on equipment disposals	936	477
Development expenses	<u>35,201</u>	<u>35,783</u>
Total fundraising	\$ <u>242,126</u>	\$ <u>173,848</u>