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

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED JULY 31, 2013
(with summarized financial information for the
year ended July 31, 2012)

with

INDEPENDENT AUDITOR'S REPORT

Brian D. Bast, P.C.
Certified Public Accountant

CONTENTS

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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 financial statements of The Community Theatre of Cedar Rapids, Inc., D/B/A Theatre Cedar Rapids (the "Theatre"), a nonprofit organization, which comprise the statement of financial position as of July 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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.

Report on Summarized Comparative Information

I have previously audited the Theatre's 2012 financial statements, and I expressed an unmodified opinion on those audited financial statements, in my report dated March 25, 2013. In my opinion, the summarized comparative information presented herein as of and for the year ended July 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Brian D. Bast, P.C.

June 10, 2014

THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.
D/B/A THEATRE CEDAR RAPIDS
STATEMENT OF FINANCIAL POSITION
July 31, 2013
(with summarized financial information for July 31, 2012)

ASSETS

	2013	2012
Current assets:		
Cash and cash equivalents	$ 130,966	$ 153,746
Receivables:		
Unconditional promises to give (Note 3)	36,000	20,668
Trade accounts	17,027	29,128
Other	-	5,163
Total receivables	53,027	54,959
Prepaid expenses and inventories	78,403	78,746
Total current assets	262,396	287,451
Property and equipment:		
Equipment	500,946	502,494
Transportation equipment	1,300	1,300
	502,246	503,794
Less accumulated depreciation and amortization	218,435	180,260
Net property and equipment	283,811	323,534
Other assets:		
Deferred income taxes	7,125	9,200
Unconditional promises to give, noncurrent, net of discount (Note 3)	70,794	56,200
Interest in assets of the Community Theatre Building Corporation (Note 2)	3,237,710	3,186,772
Beneficial interests in assets held by the Greater Cedar Rapids Community Foundation (Note 4)	107,776	-
Other	4,000	4,000
Collection items (Note 12)	-	-
Total other assets	3,427,405	3,256,172
Total	$ 3,973,612	$ 3,867,157

See accompanying notes to the financial statements.

LIABILITIES AND NET ASSETS

	2013	2012
Current liabilities:		
Accounts payable	$ 17,006	$ 44,905
Accrued expenses	4,987	13,043
Deferred revenues	255,974	196,708
Current portion of capital lease obligation	-	1,687
Total current liabilities	277,967	256,343

Commitments (Note 6)

	2013	2012
Net assets:		
Unrestricted	349,920	424,042
Temporarily restricted (Note 7)	3,344,725	3,186,772
Permanently restricted (Note 7)	1,000	-
Total net assets	3,695,645	3,610,814
Total	$ 3,973,612	$ 3,867,157

THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.
D/B/A THEATRE CEDAR RAPIDS
STATEMENT OF ACTIVITIES
Year Ended July 31, 2013
(with summarized financial information for the year ended July 31, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2013	Totals 2012
Public support and revenues:					
Production income (Note 10)	$ 977,088	$ -	$ -	$ 977,088	$ 972,783
Public support (Note 10)	778,988	106,944	1,000	886,932	825,261
Other income (Note 10)	185,206	71	-	185,277	214,166
Total public support and revenues	1,941,282	107,015	1,000	2,049,297	2,012,210
Expenses:					
Productions (Notes 9 and 10)	1,424,576	-	-	1,424,576	1,340,676
Educational programming (Note 10)	186,451	-	-	186,451	154,443
Supporting services (Note 10)	211,202	-	-	211,202	207,214
Fundraising (Note 10)	193,175	-	-	193,175	242,126
Total expenses	2,015,404	-	-	2,015,404	1,944,459
Change in net assets from operations	(74,122)	107,015	1,000	33,893	67,751
Change in interest in assets of the Community Theatre Building Corporation (Note 2)	-	50,938	-	50,938	(320,305)
Change in net assets	(74,122)	157,953	1,000	84,831	(252,554)
Net assets, beginning of year	424,042	3,186,772	-	3,610,814	3,863,368
Net assets, end of year	$ 349,920	$ 3,344,725	$ 1,000	$ 3,695,645	$ 3,610,814

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, 2013
(with summarized financial information for the year ended July 31, 2012)

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 84,831	$ (252,554)
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	(50,938)	320,305
Undistributed portion of change in beneficial interests in assets held by the Greater Cedar Rapids Community Foundation	(7,924)	-
Deferred income taxes	2,075	1,600
Loss on equipment and website disposals	11	8,404
Depreciation and amortization	47,955	48,621
Changes in operating assets and liabilities:		
Receivables	(12,662)	(52,262)
Prepaid expenses and inventories	343	(29,000)
Accounts payable and accrued expenses	(35,955)	27,638
Accrued income taxes payable	-	(500)
Deferred revenues	59,266	23,533
Net cash flows from operating activities	87,002	95,785
Cash flows from investing activities:		
Purchases of property and equipment	(8,243)	(20,276)
Distributions from beneficial interests in assets held by the Greater Cedar Rapids Community Foundation	1,148	-
Contributions to beneficial interests in assets held by the Greater Cedar Rapids Community Foundation	(101,000)	-
Payment of website costs	-	(4,000)
Net cash flows from operating activities	(108,095)	(24,276)
Cash flows from financing activities:		
Payments on capital lease obligation	(1,687)	(2,345)
Net cash flows from financing activities	(1,687)	(2,345)
Net change in cash and cash equivalents	(22,780)	69,164
Cash and cash equivalents at beginning of year	153,746	84,582
Cash and cash equivalents at end of year	$ 130,966	$ 153,746
Supplemental disclosure:		
Cash paid during the year for interest	$ 729	$ 531

See accompanying notes to the financial statements.

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.

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 reverted back to $250,000. As of July 31, 2013 and 2012, 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, 2013 and 2012 would have approximated $-0- and $39,100, 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, 2013 and 2012, accounts receivable of $9,575 and $10,110, respectively, were greater than 90 days past due. An allowance for doubtful accounts of $10,000 and $6,000 at July 31, 2013 and 2012, respectively, was deemed necessary by management to cover potential credit losses. The Theatre includes bad debt expense as a component of supporting services expense. Interest income (finance charges) collected on accounts receivable, if any, 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, 2013 and 2012 was $47,955 and $48,621, respectively, including equipment under capital lease amortization expense of $527 and $2,109 for the years ended July 31, 2013 and 2012, respectively. Equipment under capital lease included in the property and equipment balances consisted of equipment of $10,544 and accumulated amortization of $9,138 at July 31, 2012.

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.

1. Nature of organization and significant accounting policies, continued

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 $2,824 and $2,369 at July 31, 2013 and 2012, 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 $335,933 and $346,784 for the years ended July 31, 2013 and 2012, 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, 2013 and 2012.

The Theatre estimates that volunteers have donated over 44,500 hours (47,000 for 2012), 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 primarily based upon 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, 2013 and 2012 was $188,911 and $163,807, 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, 2010. There are no U.S. federal or Iowa income tax return examinations currently in progress.

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.

1. Nature of organization and significant accounting policies, continued

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, 2012, from which the summarized information was derived.

Subsequent events

The Theatre has evaluated subsequent events through June 10, 2014, 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.

During the years ended July 31, 2013 and 2012, the Building Corporation received approximately $-0- and $2,400 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.

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, 2013 and 2012 are as follows:

	2013	2012
Unconditional promises to give, net	$ 20,750	$ 38,159
Deposits with the GCRCF	847,370	778,624
Property and equipment, net	2,369,590	2,369,989
Interest in assets of Building Corporation	$ 3,237,710	$ 3,186,772

The unconditional promises to give are stated net of an unamortized discount of $-0- and $2,683 at July 31, 2013 and 2012, respectively, and an allowance for uncollectible unconditional promises to give of $1,000 and $3,350 at July 31, 2013 and 2012, respectively. See also Note 13 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 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, 2013 and 2012 are as follows:

	2013	2012
Due in less than one year	$ 39,424	$ 22,903
Due in one to five years	82,870	66,855
	122,294	89,758
Less: discount on multi-year unconditional promises to give	(10,000)	(8,390)
Less: allowance for uncollectible unconditional promises to give	(5,500)	(4,500)
Unconditional promises to give, net	106,794	76,868
Less: current portion	(36,000)	(20,668)
Unconditional promises to give, noncurrent	$ 70,794	$ 56,200

Unconditional promises to give expected to be collected in more than one year from July 31, 2013 and 2012, are discounted at a rate of return respective to the year the unconditional promise to give was originally promised. Unconditional promises to give are recorded using a discount rate of 4% for the years ended July 31, 2013 and 2012. Unconditional promises to give are recorded net of an allowance for uncollectible unconditional promises to give of $5,500 and $4,500 at July 31, 2013 and 2012, respectively.

4. Beneficial interests in assets held by the GCRCF

During 2013, the Theatre contributed $100,000 it had received from the Building Corporation to the GCRCF and created the Theatre Cedar Rapids Endowment Fund, an agency endowment fund. Under the Donation and Acceptance Form, control of the investment and reinvestment of the Theatre Cedar Rapids Endowment Fund is exercised exclusively by the GCRCF. The assets of the Theatre Cedar Rapids Endowment Fund are professionally managed with the long-term objectives of safeguarding principal, increasing the principal through long-term total return and generating income for charitable distribution. The GCRCF's fee for administering the Theatre Cedar Rapids Endowment Fund is 0.5% of the first $1 million of the market value of the corpus held in the Theatre Cedar Rapids Endowment Fund, 0.25% of the next $1 million and 0.10% for balances over $2 million.

The GCRCF will offer to make annual distributions from the Theatre Cedar Rapids Endowment Fund to the Theatre. Distributions from the Theatre Cedar Rapids Endowment Fund are for the Theatre's discretionary use, so long as such uses are legal and do not jeopardize the Theatre's 501(c)(3) status with the Internal Revenue Service. Authorized distributions by the Theatre's Board of Directors will made in accordance with the authorized spending level for charitable giving determined each January in a manner approved by the GCRCF's Board of Directors. The corpus of the Theatre Cedar Rapids Endowment Fund is included in the permanent endowment of the GCRCF. The Theatre may terminate the Theatre Cedar Rapids Endowment Fund or receive a payment larger than the GCRCF distribution by submitting in writing a copy of a resolution authorizing such action approved by 75% of the Board of Directors of the Theatre. During the year ended July 31, 2013, distributions of $1,161 were received from the Theatre Cedar Rapids Endowment Fund. The balance in the Theatre Cedar Rapids Endowment Fund at July 31, 2013 was $106,705.

During the year ended July 31, 2013, a donor contributed $1,000 to the GCRCF for the benefit of the Theatre that qualified for Endow Iowa tax credits. As a result of this contribution, the Theatre requested the GCRCF to create the Theatre Cedar Rapids Friends Fund, an agency friends fund. The Theatre may make additional contributions to the Theatre Cedar Rapids Friends Fund at any time. Under the Fund Agreement, all assets of the Theatre Cedar Rapids Friends Fund are considered assets of the GCRCF and not a separate trust. The guidelines and procedures for the funds received by the GCRCF are subject to the GCRCF's governing instruments. The GCRCF will assess a reasonable fee to administer the Theatre Cedar Rapids Friends Fund in accordance with its current fee structure, as may be amended from time to time. Each year, the GCRCF will notify the Theatre of the distribution available to it, using a distribution rate approved by the GCRCF's Board of Directors. However, since the donors to the Theatre Cedar Rapids Friends Fund will have received Endow Iowa tax credits, the Theatre Cedar Rapids Friends Fund will have annual distributions of no more than 5%. In the event that the Theatre ceases operations as a qualified 501(c)(3) organization, the Board of Directors of the GCRCF may designate other qualified charitable organizations as a successor beneficiary of the Theatre Cedar Rapids Friends Fund. During the year ended July 31, 2013, distributions of $11 were received from the Theatre Cedar Rapids Friends Fund. The balance in the Theatre Cedar Rapids Friends Fund at July 31, 2013 was $1,071.

5. 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 March 3, 2014. The demand revolving line of credit payable to the financial institution provides for maximum borrowings of up to $100,000 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 4.25% (effective rate of 4.25% at July 31, 2013) and payable monthly.

During the years ended July 31, 2013 and 2012, the Theatre incurred interest expense of $729 and $531, respectively.

6. 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 requires monthly payments of $216.

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

Year ending July 31:	
2014	$ 26,456
2015	9,358
2016	3,619
2017	864
Total minimum lease payments	$ 40,297

Total rent expense was $253,191 and $254,451 for the years ended July 31, 2013 and 2012, respectively, including $228,500 and $228,000, in imputed rent expense for space donated by the Building Corporation for 2013 and 2012, respectively.

7. Temporarily and permanently restricted net assets

Temporarily restricted net assets consist of the following at July 31, 2013 and 2012:

	2013	2012
Long-term pledges receivable	$ 106,944	$ -
Donor restricted endowment fund income	71	-
Interest in the assets of the Building Corporation	3,237,710	3,186,772
Total temporarily restricted net assets	$ 3,344,725	$ 3,186,772

7. Temporarily and permanently restricted net assets, continued

Permanently restricted net assets consisted of the corpus of the Theatre Cedar Rapids Friends Fund of $1,000 at July 31, 2013. The investment return related to the permanently restricted Theatre Cedar Rapids Friends Fund for the year ended July 31, 2013, consisted of the following:

Interest income	$ 25
Investment management expenses	(3)
Realized gains on sale of investments	3
Unrealized gains on investments	57
Investment return, net	$ 82

8. Endowment

The Theatre's endowment consisted of the Theatre Cedar Rapids Friends Fund with the GCRCF to support its general operating needs and is maintained in a donor-restricted agency fund. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Theatre's Board of Directors has interpreted the Iowa Uniform Act – Institutional Funds Management Act ("IUA-IFMA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Consequently, the Theatre classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment, and
- The original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Directors of the Theatre.

In accordance with IUA-IFMA, the Theatre considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the Theatre and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Theatre
7. The investment policies of the Theatre

8. Endowment, continued

Return Objectives and Risk Parameters

The Theatre has adopted investment and spending policies for endowment assets that attempt to provide current income to fund the operations of the Theatre as well as to enhance the future resources available to the Theatre through long-term appreciation of assets. The endowment assets are invested in a manner that is intended to provide growth of principal and income in fund assets.

Spending Policy

The Theatre has not appropriated any distributions. Any future distributions would be subject to committee and director approvals.

In establishing this policy, the Theatre considered the long-term expected returns on its endowment investments. Accordingly, over the long-term, the Theatre expects the current spending policy will allow its endowment to retain the original fair value of the gift.

Strategies Employed for Achieving Objectives

The Theatre relies on a total return strategy in which investment returns are achieved through capital appreciation and current yield (interest and dividends). The Theatre targets a diversified asset allocation that emphasizes growth instruments and equity securities to achieve its long-term objectives within prudent risk constraints.

Endowment net asset composition by type of fund as of July 31, 2013:

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 106,705	$ 71	$ 1,000	$ 107,776

Changes in endowment net assets for the year ended July 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ -	$ -	$ -	$ -
Contributions	100,000	-	1,000	101,000
Investment income, net	7,866	82	-	7,948
Distributions	(1,161)	(11)	-	(1,172)
Net assets, end of year	$ 106,705	$ 71	$ 1,000	$ 107,776

9. Income taxes

For the years ended July 31, 2013 and 2012, income tax expense on the unrelated business income related to the Theatre's advertising revenues consisted of the following:

	2013	2012
Current:		
Federal	$ -	$ -
State	-	(55)
Deferred	2,075	1,600
Total income tax expense	$ 2,075	$ 1,545

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 $18,475 and $16,400, at July 31, 2013 and 2012, respectively. The valuation allowance increased by $2,075 and $1,600 during the years ended July 31, 2013 and 2012, respectively.

10. 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 through December 31, 2013. 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.

10. Related party transactions, continued

Summarized unaudited financial data for the Building Corporation as of and for the years ended July 31, 2013 and 2012, is as follows:

	2013	2012
Assets:		
Cash and cash equivalents	$ 180,368	$ 10,872
Unconditional promises to give, net	22,250	38,159
Deposits with GCRCF	2,120,399	953,819
Other assets, net	2,602	33,272
Property and equipment	10,098,882	10,098,882
Accumulated depreciation	(2,763,196)	(2,304,630)
Total assets	$ 9,661,305	$ 8,830,374
Liabilities and net assets:		
Accounts payable and accruals	$ 713	$ 1,809
Line of credit payable	-	377,000
Permanently restricted net assets	847,370	778,624
Unrestricted net assets	8,813,222	7,672,941
Total liabilities and net assets	$ 9,661.305	$ 8,830,374
Revenues:		
Grants	$ 21,634	$ 19,833
Investment return, net	161,579	(20,495)
Contributions - public	2,557	2,401
Interest income	2,072	13,473
Gain on sale of parking lot	-	104,168
State tax credit income	1,675,315	-
Total revenues	1,863,157	119,380
Expenses:		
Property	3,265	5,022
Contributions to the Theatre	145,000	35,000
Depreciation	458,566	447,379
Supporting services	44,133	(13,457)
Interest	3,166	14,197
Write-off of FEMA grant receivable	-	324,452
Total expenses	654,130	812,593
Change in net assets	$ 1,209,027	$ (693,213)

10. 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, 2013 and 2012, is as follows:

	2013	2012
Imputed rental expense to the Building Corporation	$ 228,500	$ 228,000
Contributions from the Building Corporation	145,000	37,466
Contributions from Board of Directors' members	9,772	15,275
Contributions from employers of the Board of Directors' members	10,975	7,730
Advertising revenues from employers of the Board of Directors' members	2,600	3,600
Program sponsorships from employers of the Board of Directors' members	135,000	141,000
Special performance revenues from employers of the Board of Directors' members	8,598	5,952

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 $9,121 and $6,579 for the years ended July 31, 2013 and 2012, 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. 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.

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:

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.

13. Fair value measurements, continued

The following table sets forth a summary of the changes in the fair value of the Theatre's Level 3 investment in the deposits with the GCRCF for the year ended July 31, 2013. As reflected in the table below, the net unrealized gains on Level 3 investment assets were $4,512 for the year ended July 31, 2013.

Balance at beginning of year	$ -
Contributions	101,000
Interest and dividends	2,585
Realized gains	1,248
Unrealized gains	4,512
Investment management fees	(397)
Grants paid	(1,172)
Balance at end of year	$ 107,776

The Theatre's interest in the assets of the Building Corporation at fair value, as of July 31, 2013 and 2012, also consisted of deposits with the GCRCF of $847,370 and $778,624 at July 31, 2013 and 2012, 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, 2013 or 2012 for these financial assets.

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, 2013 and 2012. As reflected in the table below, the net unrealized gain (loss) on Level 3 investment assets was $63,078 and $(35,175) for the years ended July 31, 2013 and 2012, respectively.

	2013	2012
Balance at beginning of year	$ 778,624	$ 643,652
Contributions	-	150,773
Interest and dividends	23,803	12,784
Realized gains	9,306	21,991
Unrealized gains (losses)	63,078	(35,175)
Investment management fees	(4,491)	(4,793)
Grants paid	(22,950)	(10,608)
Balance at end of year	$ 847,370	$ 778,624

The audited financial statements of the GCRCF, as of and for the year ended December 31, 2012 and 2011, are available upon request from the GCRCF, 324 Third Street, S.E., Cedar Rapids, Iowa 52401-1841, or at their website at www.gcrcf.org.

14. <u>Greater Cedar Rapids Community Foundation designated fund</u>

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, 2013 and 2012, the balance in the Ken and Ortha Harstad Fund at the GCRCF was $665,400 and $722,000, respectively. During the years ended July 31, 2013 and 2012, the Theatre received $12,487 and $9,723 as its annual payment. This represented approximately 1.6% and 1.2% of the total fund balance before distributions were made to all beneficiary organizations for the years ended July 31, 2013 and 2012, respectively.

15. <u>Subsequent event</u>

On January 1, 2014, the Theatre entered into a formal, signed lease agreement with the Building Corporation for the lease of the Iowa Theatre Building. The lease requires annual base rental payments of $1 and the payment by the Theatre of all taxes, costs and expenses arising from its use and occupancy. The Building Corporation is responsible for the maintenance and repair of the structural portions of the roof, foundations, floors and exterior walls of the building and the replacement of the major operating components of the heating, ventilation and air conditioning system. The term of the lease is 10 years.

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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, 2013
(with summarized financial information for the year ended July 31, 2012)

	2013	2012
Production income:		
Season tickets	$ 119,531	$ 114,396
Business tickets	17,377	21,539
General admissions	504,946	506,640
Sponsorships	234,700	236,100
Advertising and miscellaneous	77,532	72,143
Concessions	23,002	21,965
Total production income	977,088	972,783
Public support:		
Contributions – public	345,249	383,780
Contributions – Building Corporation	145,000	37,466
Grants	20,250	16,731
Hotel/Motel tax	40,500	40,500
In-kind contributions – public	107,433	118,784
In-kind contributions – Building Corporation	228,500	228,000
Total public support	886,932	825,261
Other income:		
Special events and education sponsorships	132,277	126,788
Rentals	45,003	87,294
Investment	7,997	84
Total other income	185,277	214,166
Total public support and revenues	$ 2,049,297	$ 2,012,210

THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.
D/B/A THEATRE CEDAR RAPIDS
SCHEDULE OF PRODUCTION EXPENSES
Year Ended July 31, 2013
(with summarized financial information for the year ended July 31, 2012)

	2013	2012
Payroll	$ 368,236	$ 319,861
Payroll taxes and fringe benefits	97,285	91,830
Sets and props	58,682	52,606
Costumes and makeup	38,458	55,013
Honoraria	168,703	142,336
Royalties and scripts	89,616	58,734
Advertising and promotion	173,798	155,617
Programs	28,289	28,598
Concessions	17,627	18,628
Box office expenses	21,389	22,039
Miscellaneous production expenses	15,774	15,844
Lighting and sound	14,887	13,717
Depreciation	29,470	30,436
Loss on equipment disposals	7	4,009
Income taxes	2,075	1,545
Repairs and maintenance	18,746	23,023
Utilities and telephone	52,466	48,595
Rental expense	140,424	142,723
Custodial expense	-	11,055
Scene shop rent and expenses	23,350	23,272
Truck expense	193	629
Office expenses	22,712	34,012
Credit card expense	15,974	21,368
Volunteer expenses	12,771	8,709
Facility insurance	13,644	16,477
Total production expenses	$ 1,424,576	$ 1,340,676

THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.
D/B/A THEATRE CEDAR RAPIDS
SCHEDULE OF EDUCATION EXPENSES
Year Ended July 31, 2013
(with summarized financial information for the year ended July 31, 2012)

	2013	2012
Payroll	$ 67,348	$ 39,977
Payroll taxes and fringe benefits	17,793	11,477
Educational programs	38,810	52,024
Rental expense	25,683	17,838
Repairs and maintenance	3,429	2,856
Custodial expense	-	4,020
Utilities and telephone	9,596	6,074
Facility insurance	2,495	2,059
Office expenses	4,154	4,251
Advertising and promotion	7,556	4,914
Credit card expense	1,680	1,688
Box office expenses	2,516	2,960
Loss on equipment disposals	1	501
Depreciation	5,390	3,804
Total education	$ 186,451	$ 154,443

THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.
D/B/A THEATRE CEDAR RAPIDS
SCHEDULE OF SUPPORTING SERVICES EXPENSES
Year Ended July 31, 2013
(with summarized financial information for the year ended July 31, 2012)

	2013	2012
Payroll	$ 94,945	$ 76,446
Payroll taxes and fringe benefits	25,084	21,947
Depreciation	7,598	7,274
Office expenses	5,856	8,129
Utilities and telephone	13,528	11,614
Custodial expense	-	4,020
Repairs and maintenance	4,833	5,461
Rental expense	36,506	38,702
Legal and accounting	21,464	23,825
Facility insurance	3,518	3,938
Box office expenses	629	1,480
Loss on equipment disposals	2	958
Interest expense	(3,007)	3,301
Penalties and late fees	246	119
Total supporting services	$ 211,202	$ 207,214

THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.
D/B/A THEATRE CEDAR RAPIDS
SCHEDULE OF FUNDRAISING EXPENSES
Year Ended July 31, 2013
(with summarized financial information for the year ended July 31, 2012)

	2013	2012
Payroll	$ 68,672	$ 74,692
Payroll taxes and fringe benefits	18,143	21,444
Special projects	18,313	22,290
Rental expense	26,187	33,328
Utilities and telephone	9,784	11,348
Office expenses	4,236	7,942
Credit card expense	6,922	9,932
Repairs and maintenance	3,496	5,336
Advertising and promotion	7,556	3,276
Facility insurance	2,545	3,848
Custodial expense	-	1,005
Box office expenses	629	4,441
Depreciation	5,496	7,107
Loss on equipment disposals	1	936
Development expenses	21,195	35,201
Total fundraising	$ 193,175	$ 242,126