

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
DBA: THEATRE CEDAR RAPIDS**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JULY 31, 2016 AND 2015**

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
DBA: THEATRE CEDAR RAPIDS  
TABLE OF CONTENTS  
YEARS ENDED JULY 31, 2016 AND 2015**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
<b>STATEMENTS OF FINANCIAL POSITION</b>	<b>3</b>
<b>STATEMENTS OF ACTIVITIES</b>	<b>4</b>
<b>STATEMENTS OF CASH FLOWS</b>	<b>6</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>7</b>
<b>SUPPLEMENTARY INFORMATION</b>	
<b>STATEMENTS OF FUNCTIONAL EXPENSES</b>	<b>22</b>

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The Community Theatre of Cedar Rapids, Inc.  
dba: Theatre Cedar Rapids  
Cedar Rapids, Iowa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Community Theatre of Cedar Rapids, Inc., dba: Theatre Cedar Rapids (the Theatre), which comprise the statements of financial position as of July 31, 2016 and 2015, and the related statements of activities, and cash flows for the years 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors  
The Community Theatre of Cedar Rapids, Inc.  
dba: Theatre Cedar Rapids

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Theatre as of July 31, 2016 and 2015, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of functional expenses are presented for purposes of additional analysis and are 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 audits 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 our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



**CliftonLarsonAllen LLP**

Cedar Rapids, Iowa  
January 16, 2017

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA: THEATRE CEDAR RAPIDS**  
**STATEMENTS OF FINANCIAL POSITION**  
**JULY 31, 2016 AND 2015**

<b>ASSETS</b>	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 198,454	\$ 267,372
Unconditional Promises to Give, Net	103,920	180,959
Accounts Receivable	29,203	49,843
Current Portion of Contributed Lease	545,779	523,529
Prepaid Expenses and Other Assets	<u>84,752</u>	<u>69,743</u>
Total Current Assets	962,108	1,091,446
<b>EQUIPMENT, NET</b>	274,260	281,083
<b>OTHER ASSETS</b>		
Deferred Income Taxes, Net	7,125	7,125
Unconditional Promises to Give, Net	64,398	73,284
Interest in Assets of the Community Theatre Building Corporation **	824,337	855,277
Beneficial Interest in Assets Held by Community Foundation	287,263	145,052
Present Value of Contributed Lease, Less Current Portion Above	3,797,787	4,343,565
Collections	-	-
Total Other Assets	<u>4,980,910</u>	<u>5,424,303</u>
 Total Assets	 <u>\$ 6,217,278</u>	 <u>\$ 6,796,832</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 26,029	\$ 43,261
Accrued Expenses	7,752	32,346
Deferred Revenue	<u>270,875</u>	<u>244,508</u>
Total Current Liabilities	304,656	320,115
<b>NET ASSETS</b>		
Unrestricted	625,321	546,062
Temporarily Restricted	<u>5,287,301</u>	<u>5,930,655</u>
Total Net Assets	<u>5,912,622</u>	<u>6,476,717</u>
 Total Liabilities and Net Assets	 <u>\$ 6,217,278</u>	 <u>\$ 6,796,832</u>

\*\* See Note 4 and 18 for more information.

See accompanying Notes to Financial Statements.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA: THEATRE CEDAR RAPIDS**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JULY 31, 2016 AND 2015**

	2016		
	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 263,053	\$ -	\$ 263,053
Grants	57,500	40,000	97,500
Corporate Sponsorships, Donations and Matching Gifts	331,824	-	331,824
Contributed Goods and Services	151,359	-	151,359
Government Grants	41,640	15,000	56,640
Community Theatre Building Corporation Contribution	75,000	-	75,000
Special Events, Net of Expenses of \$23,664 for 2016 and \$24,557 for 2015	35,065	-	35,065
Advertising Sales	42,930	-	42,930
Parking, Box Office, Rental and Other	135,384	-	135,384
Production	955,392	-	955,392
Concessions and Catering, Net of Expenses of \$94,346 for 2016 and \$79,399 for 2015	98,014	-	98,014
Sale of Merchandise, Net of Expenses of \$31,549 for 2016 and \$31,166 for 2015	15,104	-	15,104
Education	131,484	-	131,484
Net Change in Beneficial Interest in Assets Held by Community Foundation	5,701	-	5,701
Net Change in Interest in Assets of the Community Theatre Building Corporation	-	(30,940)	(30,940)
Total Support and Revenue	<u>2,339,450</u>	<u>24,060</u>	<u>2,363,510</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>			
Satisfaction of Time and Purpose Restrictions	<u>874,265</u>	<u>(874,265)</u>	<u>-</u>
Total Support, Revenue and Net Assets Released from Restrictions	3,213,715	(850,205)	2,363,510
<b>EXPENSES</b>			
Program Services	2,565,083	-	2,565,083
Fundraising	254,738	-	254,738
Management and General	314,635	-	314,635
Total Expenses	<u>3,134,456</u>	<u>-</u>	<u>3,134,456</u>
Change in Net Assets from Operations	79,259	(850,205)	(770,946)
<b>NONOPERATING ACTIVITIES</b>			
Contributed Lease	<u>-</u>	<u>206,851</u>	<u>206,851</u>
<b>CHANGE IN NET ASSETS</b>			
Change in Net Assets from Operations	79,259	(643,354)	(564,095)
Net Assets - Beginning of Year	<u>546,062</u>	<u>5,930,655</u>	<u>6,476,717</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 625,321</u></u>	<u><u>\$ 5,287,301</u></u>	<u><u>\$ 5,912,622</u></u>

See accompanying Notes to Financial Statements.

2015		
Unrestricted	Temporarily Restricted	Total
\$ 212,534	\$ 120,000	\$ 332,534
56,757	-	56,757
386,983	-	386,983
133,058	-	133,058
61,387	15,000	76,387
73,000	-	73,000
31,480	-	31,480
33,931	-	33,931
109,901	-	109,901
1,044,644	-	1,044,644
60,037	-	60,037
(7,335)	-	(7,335)
105,581	-	105,581
(2,087)	-	(2,087)
-	(49,639)	(49,639)
2,299,871	85,361	2,385,232
761,855	(761,855)	-
3,061,726	(676,494)	2,385,232
2,477,591	-	2,477,591
243,931	-	243,931
298,860	-	298,860
3,020,382	-	3,020,382
41,344	(676,494)	(635,150)
-	228,194	228,194
41,344	(448,300)	(406,956)
504,718	6,378,955	6,883,673
\$ 546,062	\$ 5,930,655	\$ 6,476,717

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA: THEATRE CEDAR RAPIDS**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JULY 31, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (564,095)	\$ (406,956)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation and Amortization	58,179	54,235
Contributed Goods and Services	(358,210)	(361,252)
Contributed Goods and Services Expense	881,741	863,438
Net Realized and Unrealized (Gain) Loss in Beneficial Interest in Assets Held by Community Foundation	(5,701)	2,087
Net Realized and Unrealized Loss in Assets of the Community Theatre Building Corporation	30,940	49,639
Effects of Changes in Operating Assets and Liabilities:		
Unconditional Promises to Give	85,925	(121,788)
Accounts Receivable	20,640	13,884
Prepaid Expenses and Other Assets	(15,009)	24,743
Accounts Payable	(17,232)	4,249
Accrued Expenses and Other Liabilities	(24,594)	31,297
Deferred Revenue	26,367	(59,611)
Net Cash Provided by Operating Activities	118,951	93,965
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(51,359)	(23,134)
Transfer to Community Foundation	(142,215)	(180)
Transfer from Community Foundation	5,705	5,289
Net Cash Used by Investing Activities	(187,869)	(18,025)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(68,918)	75,940
Cash and Cash Equivalents - Beginning of Year	267,372	191,432
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 198,454	\$ 267,372



**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
DBA:THEATRE CEDAR RAPIDS  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organizational Purpose**

With a history that reaches back to 1925, The Community Theatre of Cedar Rapids, Inc., dba: Theatre Cedar Rapids (the Theatre), was incorporated in the state of Iowa as a nonprofit community theatre. Committed to its mission “together, we make the magic of live theatre,” participants volunteer as performers, set builders and tech crew, costume and prop builders, ushers and box office workers, and aided by professional staff, they offer Eastern Iowa six musicals, four plays, a collaborative play for young audiences, and a new play festival. The Education program offers theatre classes, camps, career events, outreach programs, and educational performances. The theatre facility is also made available for community meetings, forums, lunch and dinner events, community tours, fundraisers, concerts, and school productions.

The fiscal year-end for the Theatre is July 31. Significant accounting policies followed by the Theatre are presented below.

**Cash and Cash Equivalents**

The Theatre considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Prepaid Expenses and Other Assets**

Prepaid expenses represent costs incurred in the preparation for the following season’s productions. These costs are recognized as expenses when the productions are held. Other assets consist of merchandise inventories. Other assets are stated at the lower of cost using the first-in, first-out (“FIFO”) method, or market.

**Equipment**

Purchased equipment is recorded at cost while contributed property and equipment is recorded at estimated fair value at the date of gift. Depreciation is computed utilizing the straight-line method over the estimated useful lives of the assets which range from five to twenty-five years. The Theatre follows the policy of capitalizing all equipment purchases over \$800 whose useful life is greater than one year.

**Interest in Assets of Community Theatre Building Corporation**

The Theatre recognizes its interest in the assets of the Community Theatre Building Corporation (Building Corporation) held by a community foundation as an asset and annually adjusts that interest for its share of the change in the Building Corporation’s assets.

**Beneficial Interest in Assets Held by a Community Foundation**

Certain funds are held by The Greater Cedar Rapids Community Foundation (the Foundation) in a permanent designated agency endowment fund for the benefit of the Theatre. The transactions with the Foundation are deemed to be reciprocal and, therefore, the value of the funds held by the Foundation are recognized as an asset (beneficial interest in assets held by a community foundation) by the Theatre.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA:THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Beneficial Interest in Assets Held by a Community Foundation (Continued)**

Other designated funds held by the Foundation for the benefit of the Theatre have been established by separate donors who explicitly granted variance power to the Foundation in a nonreciprocal transfer. As such, these funds are not recognized as an asset by the Theatre. The distributions received from the Foundation from these funds are recognized as revenue by the Theatre upon receipt.

**Collections**

The collections, which were acquired through purchases and contributions since the Theatre's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets, through an expense, in the year in which the items are acquired or as decreases in temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from sales or insurance recoveries are reflected as increases in the appropriate net asset classes.

**Deferred Revenue**

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 period. These deferred revenues will be recognized in the periods when the productions or classes are held.

**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 Net Assets* – Includes all net assets which are neither temporarily or permanently restricted.

*Temporarily Restricted Net Assets* – Includes 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.

*Permanently Restricted Net Assets* – Includes contributions and other inflows of assets whose use by the Theatre is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Theatre. The Theatre had no permanently restricted net assets at July 31, 2016 and 2015.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA:THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Support and Revenue**

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Amounts received which are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. If a restriction is fulfilled in the same time period in which the contribution is received, the organization reports the support as unrestricted. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give are recorded as a receivable and as support when the promise is received. Substantially all the unconditional promises to give are due from local businesses and individuals. Contributions whose collection extends beyond one year are measured at the present value of the estimated future collections expected to be received by the Theatre. An allowance for discount is provided based on the estimated present value of estimated future collections, when applicable.

Contributions of donated goods are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, 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. Contributed goods and services consist primarily of donated media time.

A number of volunteers have made significant contributions of their time in the furtherance of the Theatre's programs. The value of this contributed time is not reflected in the accompanying statements of activities as the services do not meet the criteria for recognition.

Contributed property and equipment is recorded at estimated fair value at the date of gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Unconditional promise to give expected to be collected in future years are recorded at the present value of the estimated future cash flows. Accounts receivable are valued at net invoice cost.

**Use of Estimates in Preparing Financial Statements**

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses, donated goods and services, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA:THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impairment of Long-Lived Assets**

The Theatre reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

**Functional Expenses**

The costs of providing various program and supporting activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated between program and supporting activities benefitted.

**Nonoperating Activities**

The Theatre recognized the initial value of a contributed lease as a nonoperating activity.

**Income Taxes**

The Theatre is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides income tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes. The IRS has not classified the Theatre as a private foundation.

The Theatre files information returns in the U.S. federal jurisdiction. The Theatre has determined that it was not required to record a liability related to uncertain tax positions.

**Significant Estimates**

The Theatre is provided space under a contributed lease. The value of the donated rent expense and recorded asset are considered a significant estimate. See Note 8 for additional information.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA:THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 2 UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give consist of the following as of July 31:

	2016	2015
Unconditional Promises to Give	\$ 185,679	\$ 267,891
Less: Allowance for Doubtful Accounts	(3,000)	(3,000)
Less: Discount to Present Value	(14,361)	(10,648)
Net Unconditional Promises to Give	<u>\$ 168,318</u>	<u>\$ 254,243</u>
	<u>2016</u>	<u>2015</u>
Amounts Due In:		
Less than One Year	\$ 103,920	\$ 180,959
One to Five Years	64,398	73,284
Total	<u>\$ 168,318</u>	<u>\$ 254,243</u>

Unconditional promises to give expected to be collected in more than one year from July 31, 2016 and 2015 are discounted at a rate of return respective to the year the unconditional promises to give was originally promised. Unconditional promises to give are recorded using a discount rate of 4%.

**NOTE 3 EQUIPMENT**

A summary of the property and equipment accounts is as follows as of July 31:

	2016	2015
Equipment	\$ 624,897	\$ 573,540
Less: Accumulated Depreciation	(350,637)	(292,457)
Net Equipment	<u>\$ 274,260</u>	<u>\$ 281,083</u>

Depreciation expense totaled \$58,179 and \$54,235 for the years ending July 31, 2016 and 2015, respectively.

**NOTE 4 INTEREST IN ASSETS OF COMMUNITY THEATRE BUILDING CORPORATION**

On September 26, 2007, a joint meeting of the board of trustees of the Community Theatre Building Corporation (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. The proceeds raised for building improvements were retained by the Building Corporation and spent on the Iowa Theatre Building in which the Theatre resides. The Theatre has recognized a Contributed Lease asset as the Theatre is provided the space for \$1 per year. See Note 8 for additional information.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA:THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 4 INTEREST IN ASSETS OF COMMUNITY THEATRE BUILDING CORPORATION  
(CONTINUED)**

The proceeds raised for establishing the endowment fund have been transferred to and maintained by The Greater Cedar Rapids Community Foundation (Foundation). The fund is administered by the Foundation for the benefit of the Building Corporation. Control over the investment or reinvestment of these funds is exercised exclusively by the Foundation. A portion of the fund's earnings is made available to the Building Corporation periodically. During the years ended July 31, 2016 and 2015, there were no transfers between the Theatre and the Building Corporation. The only assets of the Building Corporation that are included on the Theatre's financial statements is the endowment at the Foundation. In connection with The Next Act, the Building Corporation was not granted variance power over the unconditional promises to give.

**NOTE 5 BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION**

The Theatre has funds held by The Greater Cedar Rapids Community Foundation (Foundation). The fund is administered by the Foundation for the benefit of the Theatre. Control over the investment or reinvestment of these funds is exercised exclusively by the Foundation. A portion of the fund's earnings is made available for distribution to the Theatre periodically. For the years ended July 31, 2016 and 2015, \$5,705 and \$5,289, respectively, were distributed to the Theatre from the Foundation.

**NOTE 6 BENEFICIARY OF DESIGNATED FUNDS AT COMMUNITY FOUNDATION**

Designated funds for the benefit of the Theatre have been established by donors with the Foundation. In establishing a designated fund, donors select a specific nonprofit institution as the recipient, and grants are made to the recipient annually as long as the named institution remains in existence and continues to fulfill its intended purpose. These funds are not recognized as an asset by the Theatre. The distributions received from the Foundation from these funds are recognized as revenue by the Theatre upon receipt. For the years ended July 31, 2016 and 2015, \$17,047 and \$18,157, respectively, of earnings were distributed to the Theatre.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA:THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 7 FAIR VALUE MEASUREMENTS**

Accounting principles generally accepted in the United States of America establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted 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* – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

*Level 2* – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3* – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

*Interest in assets of the Community Theatre Building Corporation:* Valued at the net asset value of the Building Corporation's assets. The unobservable inputs are the underlying assets which include assets at the community foundation and follow their investment policy.

*Beneficial interest in assets held by community foundation:* Valued at the Theatre's pro-rata share of the community foundation's investment pools. The unobservable inputs are the underlying assets at the community foundation and follow their investment policy.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA: THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table presents assets measured at fair value by classification within the fair value hierarchy as of July 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest in Assets of the Community Theatre Building Corporation	\$ -	\$ -	\$ 824,337	\$ 824,337
Beneficial Interest in Assets Held by Community Foundation	-	-	287,263	287,263
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,111,600</u>	<u>\$ 1,111,600</u>

The following table presents assets measured at fair value by classification within the fair value hierarchy as of July 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest in Assets of the Community Theatre Building Corporation	\$ -	\$ -	\$ 855,277	\$ 855,277
Beneficial Interest in Assets Held by Community Foundation	-	-	145,052	145,052
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,329</u>	<u>\$ 1,000,329</u>

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the year ended July 31, 2016:

	<u>Interest in Assets of the Community Theatre Building Corporation</u>	<u>Beneficial Interest in Assets Held by Community Foundation</u>	<u>Total</u>
Balance - July 31, 2015	\$ 855,277	\$ 145,052	\$ 1,000,329
Contributions	-	142,215	142,215
Distributions	-	(5,705)	(5,705)
Change in Beneficial Interest in Assets held by Community Foundation	-	5,701	5,701
Change in Interest in Assets of the Community Theatre Building Corporation	(30,940)	-	(30,940)
Balance - July 31, 2016	<u>\$ 824,337</u>	<u>\$ 287,263</u>	<u>\$ 1,111,600</u>



**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA:THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)**

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the year ended July 31, 2015:

	Interest in Assets of the Community Theatre Building Corporation	Beneficial Interest in Assets Held by Community Foundation	Total
Balance - July 31, 2014	\$ 904,916	\$ 152,248	\$ 1,057,164
Contributions	-	180	180
Distributions	-	(5,289)	(5,289)
Change in Beneficial Interest in Assets held by Community Foundation	-	(2,087)	(2,087)
Change in Interest in Assets of the Community Theatre Building Corporation	(49,639)	-	(49,639)
Balance - July 31, 2015	<u>\$ 855,277</u>	<u>\$ 145,052</u>	<u>\$ 1,000,329</u>

**NOTE 8 CONTRIBUTED LEASE**

The Theatre has entered into a lease agreement effective January 1, 2014, with the Building Corporation for the building in which the Theatre is located. The lease agreement provides for a rental payment of \$1 per year. The lease covers a period of ten years and expires December 31, 2023.

Based on the present value of the fair value of the building in excess of the lease fees, the Theatre has recorded a contribution and related asset from the Building Corporation which will be amortized over the term of the lease and recognized a temporarily restricted net asset (see Note 10). The contributed lease is amortized to rent expense over the life of the lease. For the years ended July 31, 2016 and 2015, the Theatre recognized \$730,380 as rent expense under this lease. The value of the contributed lease has been discounted at a rate of 4.25%.

The calculation of the contributed lease from the Building Corporation and the related discount to present value is based on certain estimates of the fair value of the building, its annual lease value, and a discount rate. Management believes the contributed lease and discount to present value are reasonable estimates based on information currently known. However, circumstances impacting these estimates could occur which could significantly change these calculations.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA:THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 8 CONTRIBUTED LEASE (CONTINUED)**

	2016	2015
Contributed Lease	\$ 4,867,094	\$ 5,369,279
Less: Discount to Present Value	(523,528)	(502,185)
Net Present Value of Contributed Lease	\$ 4,343,566	\$ 4,867,094
Amounts to be Recognized in:		
Less Than One Year	\$ 545,779	
One to Five Years	3,797,787	
Total	\$ 4,343,566	

**NOTE 9 ENDOWMENTS**

The Theatre's endowment consists of funds with the Foundation to support its general operating needs of the Theatre. Its endowment consists of funds designated by the board of directors (board) to function as an endowment. As required by accounting principles generally accepted in the United States of America, 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.

**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. Currently, all of the endowment assets are being held and managed by the Foundation.

**Spending Policy**

Distributions, if any, are determined annually by the Theatre's governing board.

**Strategies Employed for Achieving Objectives**

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

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA:THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 9 ENDOWMENTS (CONTINUED)**

Endowment net asset composition by type of fund as of July 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board Designated Endowment Funds	<u>\$ 287,263</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 287,263</u>

Endowment net asset composition by type of fund as of July 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board Designated Endowment Funds	<u>\$ 145,052</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,052</u>

Changes in endowment net assets for the year ended July 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets - Beginning of Year	\$ 145,052	\$ -	\$ -	\$ 145,052
Contributions	142,215	-	-	142,215
Change in Beneficial Interest	5,701	-	-	5,701
Appropriation of Endowment Assets for Program Expenditures	(5,705)	-	-	-
Net Assets - End of Year	<u>\$ 287,263</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 287,263</u>

Changes in endowment net assets for the year ended July 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets - Beginning of Year	\$ 152,248	\$ -	\$ -	\$ 152,248
Contributions	180	-	-	180
Change in Beneficial Interest	(2,087)	-	-	(2,087)
Appropriation of Endowment Assets for Program Expenditures	(5,289)	-	-	-
Net Assets - End of Year	<u>\$ 145,052</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,052</u>

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA:THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 10 NATURE AND AMOUNT OF RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes or periods as of July 31:

	<u>2016</u>	<u>2015</u>
Time Restricted	\$ 64,398	\$ 193,284
Expansion of Education Program	40,000	-
Subsequent Year's Operations	15,000	15,000
Interest in Net Assets of the Community Theatre Building Corporation	824,337	855,277
Contributed Lease	4,343,566	4,867,094
Total	<u>\$ 5,287,301</u>	<u>\$ 5,930,655</u>

**NOTE 11 LEASE COMMITMENT AND RENT EXPENSE**

The Theatre is leasing office equipment that requires monthly payments of \$846. The Theatre is also getting reimbursed by another entity for use of one of the pieces of equipment and is receiving \$217 per month. The net amount of monthly payments is \$629.

Future minimum payments as of July 31, 2016 under these leases are as follows:

<u>Year Ending July 31,</u>	<u>Amount</u>
2017	\$ 7,548
2018	5,661
Total	<u>\$ 13,209</u>

The Theatre is leasing space that requires monthly payments that range from \$1,780 to \$1,830.

Future minimum payments as of July 31, 2016 under this lease are as follows:

<u>Year Ending July 31,</u>	<u>Amount</u>
2017	\$ 21,810
2018	5,490
Total	<u>\$ 27,300</u>

Rent expense for the years ended July 31, 2016 and 2015 totaled \$757,025 and \$757,957, respectively. This includes \$730,380 of in-kind rent expense for space donated by the Building Corporation.

**NOTE 12 ADVERTISING**

Advertising expense for the years ended July 31, 2016 and 2015 totaled \$292,304 and \$260,471, respectively.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA:THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 13 COLLECTIONS**

The Theatre's collections are made up of a pencil sketch and a replica painting. Each of the items is cataloged, preserved, and cared for and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sale to be used to acquire other items for collections.

**NOTE 14 LINE OF CREDIT**

The Theatre has a \$100,000 revolving line of credit available at a bank, none of which was used as of July 31, 2016 and 2015. The line of credit bears interest at 4.5%. The line of credit matures on August 1, 2017.

**NOTE 15 EMPLOYEE BENEFIT PLAN**

The Theatre has established a defined contribution retirement plan under IRS Code Section 403(b). Theatre employees are eligible to make an elective salary deferral pursuant to a salary reduction agreement. Presently the Theatre matches employee contributions up to a maximum of 3% of employee compensation. Expenses under this plan for the years ended July 31, 2016 and 2015 totaled \$14,282 and \$14,421, respectively.

**NOTE 16 DISCLOSURE ABOUT CERTAIN CONCENTRATIONS**

The Theatre maintains cash balances in one commercial bank. During the course of the year, the Theatre's deposits at the bank exceeded the maximum amount insured by the FDIC. Management believes the credit risk related to the uninsured balance is minimal.

**NOTE 17 INCOME TAXES**

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 1, 2029. The deferred tax asset is recorded net of a valuation allowance of \$18,475 at July 31, 2016 and 2015.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA:THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 18 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 fifteen to twenty members 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.

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

	<u>2016</u>	<u>2015</u>
Assets		
Cash, Receivables, Investments and Other Assets	\$ 2,310,274	\$ 2,378,848
Equipment, Net	6,007,980	6,468,794
Total Assets	<u>\$ 8,318,254</u>	<u>\$ 8,847,642</u>
Liabilities		
Accounts Payable	\$ 40	\$ 80
Net Assets		
Unrestricted	7,493,876	7,992,285
Permanently Restricted	824,338	855,277
Total Net Assets	<u>8,318,214</u>	<u>8,847,562</u>
Total Liabilities and Net Assets	<u>\$ 8,318,254</u>	<u>\$ 8,847,642</u>
Revenues	\$ 37,388	\$ (6,150)
Expenses	<u>566,737</u>	<u>555,640</u>
Change in Net Assets	<u>\$ (529,349)</u>	<u>\$ (561,790)</u>

The Theatre also has assigned certain rents and profits as collateral for the Building Corporation's line of credit with maturity date of August 1, 2017. There were no outstanding amounts at July 31, 2016 and 2015.

The Theatre receives contributions, advertising revenues, program sponsorships and ticket purchases from members of the board of directors. 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.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA:THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2016 AND 2015**

**NOTE 18 RELATED PARTY TRANSACTIONS (CONTINUED)**

A summary of related party transactions for the years ending July 31 is as follows:

	2016	2015
Donated Lease Expense to the Building Corporation	\$ 730,380	\$ 730,380
Contributions from the Building Corporation	75,000	73,000
Contributions from Board of Directors	20,575	19,667
Contributions from Employers of the Board of Directors	4,460	16,645
Advertising Revenues from Employers of the Board of Directors	3,100	3,700
Program Sponsorships from Employers of the Board of Directors	120,500	205,600
Special Performance Revenues from Employers of the Board of Directors	8,748	10,408
Rental Revenue from Employers of the Board of Directors	-	2,140

**NOTE 19 SUBSEQUENT EVENTS**

Management evaluated subsequent events through January 16, 2017, the date the financial statements were available to be issued. Events or transactions occurring after July 31, 2016, but prior to January 16, 2017, that provided additional evidence about conditions that existed at July 31, 2016, have been recognized in the financial statements for the year ended July 31, 2016. Events or transactions that provided evidence about conditions that did not exist at July 31, 2016, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended July 31, 2016.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA: THEATRE CEDAR RAPIDS**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JULY 31, 2016**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

	Program Services			Supporting Services			Total Functional Expenses
	Production	Education	Total Program Services	Fundraising	Management and General	Total Supporting Services	
<b>EXPENSES</b>							
Salaries	\$ 563,004	\$ 89,250	\$ 652,254	\$ 95,471	\$ 109,306	\$ 204,777	\$ 857,031
Payroll Taxes and Fringe Benefits	147,090	23,317	170,407	24,943	28,557	53,500	223,907
Contract Services	222,380	49,082	271,462	1,000	-	1,000	272,462
Facilities and Maintenance	53,455	4,277	57,732	4,575	5,238	9,813	67,545
Utilities	49,826	7,899	57,725	8,449	9,674	18,123	75,848
Office and Administrative	93,266	10,419	103,685	14,958	22,320	37,278	140,963
Development	-	-	-	11,418	-	11,418	11,418
Production and Artistic	318,534	781	319,315	521	2,603	3,124	322,439
Promotion	157,653	6,854	164,507	5,141	1,714	6,855	171,362
Education Programs	-	38,147	38,147	-	-	-	38,147
Volunteer Programs	10,370	-	10,370	-	-	-	10,370
In-Kind Contributions	147,011	-	147,011	1,100	3,250	4,350	151,361
Donated Lease Expense	445,531	80,342	525,873	80,342	124,165	204,507	730,380
Depreciation and Amortization	38,219	6,059	44,278	6,481	7,420	13,901	58,179
Miscellaneous	2,000	317	2,317	339	388	727	3,044
<b>Total Expenses</b>	<b>\$ 2,248,339</b>	<b>\$ 316,744</b>	<b>\$ 2,565,083</b>	<b>\$ 254,738</b>	<b>\$ 314,635</b>	<b>\$ 569,373</b>	<b>\$ 3,134,456</b>



**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA: THEATRE CEDAR RAPIDS**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JULY 31, 2015**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

	Program Services			Supporting Services			Total Functional Expenses
	Production	Education	Total Program Services	Fundraising	Management and General	Total Supporting Services	
<b>EXPENSES</b>							
Salaries	\$ 530,067	\$ 86,326	\$ 616,393	\$ 86,150	\$ 101,262	\$ 187,412	\$ 803,805
Payroll Taxes and Fringe Benefits	123,369	20,092	143,461	20,051	23,568	43,619	187,080
Contract Services	218,910	45,559	264,469	-	-	-	264,469
Facilities and Maintenance	49,816	3,388	53,204	3,381	3,974	7,355	60,559
Utilities	49,065	7,991	57,056	7,974	9,373	17,347	74,403
Office and Administrative	76,051	10,961	87,012	18,960	23,057	42,017	129,029
Development	-	-	-	13,047	-	13,047	13,047
Production and Artistic	355,275	2,812	358,087	703	703	1,406	359,493
Promotion	141,753	6,163	147,916	4,622	1,541	6,163	154,079
Education Programs	-	39,439	39,439	-	-	-	39,439
Volunteer Programs	15,105	-	15,105	-	-	-	15,105
In-Kind Contributions	126,301	-	126,301	2,650	4,107	6,757	133,058
Donated Lease Expense	445,531	80,342	525,873	80,342	124,165	204,507	730,380
Depreciation and Amortization	35,764	5,825	41,589	5,813	6,833	12,646	54,235
Miscellaneous	1,449	237	1,686	238	277	515	2,201
<b>Total Expenses</b>	<b>\$ 2,168,456</b>	<b>\$ 309,135</b>	<b>\$ 2,477,591</b>	<b>\$ 243,931</b>	<b>\$ 298,860</b>	<b>\$ 542,791</b>	<b>\$ 3,020,382</b>