

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JULY 31, 2017 AND 2016**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
DBA: THEATRE CEDAR RAPIDS  
TABLE OF CONTENTS  
YEARS ENDED JULY 31, 2017 AND 2016**

<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, 2017 and 2016, 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, 2017 and 2016, 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*

**CliftonLarsonAllen LLP**

Cedar Rapids, Iowa  
November 20, 2017

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA: THEATRE CEDAR RAPIDS**  
**STATEMENTS OF FINANCIAL POSITION**  
**JULY 31, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 32,046	\$ 198,454
Unconditional Promises to Give, Net	91,888	103,920
Accounts Receivable	23,223	29,203
Current Portion of Contributed Lease	568,974	545,779
Prepaid Expenses and Other Assets	104,862	84,752
Total Current Assets	820,993	962,108
<b>EQUIPMENT, NET</b>	218,618	274,260
<b>OTHER ASSETS</b>		
Deferred Income Taxes, Net	7,125	7,125
Unconditional Promises to Give, Net	52,785	64,398
Interest in Assets of the Community Theatre Building Corporation **	864,056	824,337
Beneficial Interest in Assets Held by Community Foundation	291,282	287,263
Present Value of Contributed Lease, Less Current Portion Above Collections	3,228,812	3,797,787
Total Other Assets	4,444,060	4,980,910
Total Assets	\$ 5,483,671	\$ 6,217,278
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 39,795	\$ 26,029
Accrued Expenses	11,701	7,752
Deferred Revenue	228,312	270,875
Total Current Liabilities	279,808	304,656
<b>LONG-TERM LIABILITIES</b>		
Notes Payable	45,640	-
Total Liabilities	325,448	304,656
<b>NET ASSETS</b>		
Unrestricted	342,348	576,402
Temporarily Restricted	4,815,875	5,336,220
Total Net Assets	5,158,223	5,912,622
Total Liabilities and Net Assets	\$ 5,483,671	\$ 6,217,278

\*\* See Notes 4 and 19 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, 2017 AND 2016**

	2017		
	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 268,223	\$ -	\$ 268,223
Grants	71,022	25,000	96,022
Corporate Sponsorships, Donations and Matching Gifts	306,100	-	306,100
Contributed Goods and Services	132,210	9,360	141,570
Government Grants	41,876	15,000	56,876
Community Theatre Building Corporation Contribution	65,000	-	65,000
Special Events, Net of Expenses of \$23,564 for 2017 and \$23,664 for 2016	19,435	-	19,435
Advertising Sales	33,165	-	33,165
Parking, Box Office, Rental, and Other	137,702	-	137,702
Production	866,746	-	866,746
Concessions and Catering, Net of Expenses of \$74,989 for 2017 and \$94,346 for 2016	82,555	-	82,555
Sale of Merchandise, Net of Expenses of \$27,342 for 2017 and \$31,549 for 2016	12,823	-	12,823
Education	117,226	-	117,226
Net Change in Beneficial Interest in Assets Held by Community Foundation	15,151	-	15,151
Net Change in Interest in Assets of the Community Theatre Building Corporation	-	39,719	39,719
Total Support and Revenue	<u>2,169,234</u>	<u>89,079</u>	<u>2,258,313</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>			
Satisfaction of Time and Purpose Restrictions	<u>794,025</u>	<u>(794,025)</u>	<u>-</u>
Total Support, Revenue and Net Assets Released from Restrictions	2,963,259	(704,946)	2,258,313
<b>EXPENSES</b>			
Program Services	2,576,956	-	2,576,956
Fundraising	272,392	-	272,392
Management and General	347,965	-	347,965
Total Expenses	<u>3,197,313</u>	<u>-</u>	<u>3,197,313</u>
Change in Net Assets from Operations	(234,054)	(704,946)	(939,000)
<b>NONOPERATING ACTIVITIES</b>			
Contributed Lease	<u>-</u>	<u>184,601</u>	<u>184,601</u>
<b>CHANGE IN NET ASSETS</b>	(234,054)	(520,345)	(754,399)
Net Assets - Beginning of Year	<u>576,402</u>	<u>5,336,220</u>	<u>5,912,622</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 342,348</u>	<u>\$ 4,815,875</u>	<u>\$ 5,158,223</u>

See accompanying Notes to Financial Statements.

2016		
Unrestricted	Temporarily Restricted	Total
\$ 263,053	\$ -	\$ 263,053
57,500	40,000	97,500
331,824	-	331,824
151,359	-	151,359
41,640	15,000	56,640
75,000	-	75,000
35,065	-	35,065
42,930	-	42,930
135,384	-	135,384
955,392	-	955,392
98,014	-	98,014
15,104	-	15,104
131,484	-	131,484
5,701	-	5,701
-	(30,940)	(30,940)
2,339,450	24,060	2,363,510
886,303	(886,303)	-
3,225,753	(862,243)	2,363,510
2,565,083	-	2,565,083
254,738	-	254,738
314,635	-	314,635
3,134,456	-	3,134,456
91,297	(862,243)	(770,946)
-	206,851	206,851
91,297	(655,392)	(564,095)
485,105	5,991,612	6,476,717
\$ 576,402	\$ 5,336,220	\$ 5,912,622

See accompanying Notes to Financial Statements.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA: THEATRE CEDAR RAPIDS**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JULY 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (754,399)	\$ (564,095)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation and Amortization	62,378	58,179
Contributed Goods and Services	(326,171)	(358,210)
Contributed Goods and Services Expense	858,969	881,741
Net Realized and Unrealized Gain in Beneficial Interest in Assets Held by Community Foundation	(15,151)	(5,701)
Net Realized and Unrealized (Gain) Loss in Assets of the Community Theatre Building Corporation	(39,719)	30,940
Effects of Changes in Operating Assets and Liabilities:		
Unconditional Promises to Give	23,645	85,925
Accounts Receivable	5,980	20,640
Prepaid Expenses and Other Assets	(20,110)	(15,009)
Accounts Payable	13,766	(17,232)
Accrued Expenses and Other Liabilities	3,949	(24,594)
Deferred Revenue	(42,563)	26,367
Net Cash Provided (Used) by Operating Activities	<u>(229,426)</u>	<u>118,951</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(3,114)	(51,359)
Transfer to Community Foundation	(50,000)	(142,215)
Transfer from Community Foundation	61,132	5,705
Net Cash Provided (Used) by Investing Activities	<u>8,018</u>	<u>(187,869)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Notes Payable	185,000	-
Payments on Notes Payable	(130,000)	-
Net Cash Provided by Financing Activities	<u>55,000</u>	<u>-</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(166,408)	(68,918)
Cash and Cash Equivalents - Beginning of Year	<u>198,454</u>	<u>267,372</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 32,046</u></u>	<u><u>\$ 198,454</u></u>

See accompanying Notes to Financial Statements.



**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
DBA: THEATRE CEDAR RAPIDS  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2017 AND 2016**

**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. Aided by the professional staff, they offer Eastern Iowa a thirteen production season featuring musicals, plays, cabaret, improv, 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 5 to 25 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, 2017 AND 2016**

**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 statements 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, 2017 and 2016.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA: THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2017 AND 2016**

**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, 2017 AND 2016**

**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 statements 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.

**Reclassification**

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. The reclassifications had no effect on the change in net assets or total net assets as previously reported.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA: THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2017 AND 2016**

**NOTE 2 UNCONDITIONAL PROMISES TO GIVE**

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

	2017	2016
Unconditional Promises to Give	\$ 156,811	\$ 185,679
Less: Allowance for Doubtful Accounts	(5,000)	(3,000)
Less: Discount to Present Value	(7,138)	(14,361)
Net Unconditional Promises to Give	\$ 144,673	\$ 168,318
	2017	2016
Amounts Due In:		
Less than One Year	\$ 91,888	\$ 103,920
One to Five Years	52,785	64,398
Total	\$ 144,673	\$ 168,318

Unconditional promises to give expected to be collected in more than one year from July 31, 2017 and 2016 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:

	2017	2016
Equipment	\$ 628,755	\$ 624,897
Less: Accumulated Depreciation	(410,137)	(350,637)
Net Equipment	\$ 218,618	\$ 274,260

Depreciation expense totaled \$62,378 and \$58,179 for the years ending July 31, 2017 and 2016, respectively.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA: THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2017 AND 2016**

**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 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, 2017 and 2016, 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.

**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, 2017 and 2016, \$19,697 and \$17,047, 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, 2017 AND 2016**

**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, 2017 AND 2016**

**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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest in Assets of the Community				
Theatre Building Corporation	\$ -	\$ -	\$ 864,056	\$ 864,056
Beneficial Interest in Assets Held				
by Community Foundation	-	-	291,282	291,282
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,155,338</u>	<u>\$ 1,155,338</u>

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 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, 2017:

	<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, 2016	\$ 824,337	\$ 287,263	\$ 1,111,600
Contributions	-	50,000	50,000
Distributions	-	(61,132)	(61,132)
Change in Beneficial Interest in Assets			
Held by Community Foundation	-	15,151	15,151
Change in Interest in Assets of the			
Community Theatre Building Corporation	39,719	-	39,719
Balance - July 31, 2017	<u>\$ 864,056</u>	<u>\$ 291,282</u>	<u>\$ 1,155,338</u>



**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
DBA: THEATRE CEDAR RAPIDS  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2017 AND 2016**

**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, 2016:

	Interest in Assets of the Community Theatre Building Corporation	Beneficial Interest in Assets Held by Community Foundation	Total
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>

**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 10 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 11). The contributed lease is amortized to rent expense over the life of the lease. For the years ended July 31, 2017 and 2016, 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, 2017 AND 2016**

**NOTE 8 CONTRIBUTED LEASE (CONTINUED)**

	2017	2016
Contributed Lease	\$ 4,343,566	\$ 4,867,094
Less: Discount to Present Value	(545,780)	(523,528)
Net Present Value of Contributed Lease	\$ 3,797,786	\$ 4,343,566
Amounts to be Recognized in:		
Less Than One Year	\$ 568,974	
One to Five Years	3,228,812	
Total	\$ 3,797,786	

**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, 2017 AND 2016**

**NOTE 9 ENDOWMENTS (CONTINUED)**

Endowment net asset composition by type of fund as of July 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-Designated Endowment Funds	<u>\$ 291,282</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 291,282</u>

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>

Changes in endowment net assets for the year ended July 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets - Beginning of Year	\$ 287,263	\$ -	\$ -	\$ 287,263
Contributions	50,000	-	-	50,000
Change in Beneficial Interest	15,151	-	-	15,151
Appropriation of Endowment Assets for Program Expenditures	(61,132)	-	-	-
Net Assets - End of Year	<u>\$ 291,282</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 291,282</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>

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
DBA: THEATRE CEDAR RAPIDS  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2017 AND 2016**

**NOTE 10 NOTES PAYABLE**

The Theatre has a note payable to the Building Corporation. The note payable bears no interest, requires no monthly payments, and the full amount is due July 28, 2020. Imputed interest totaled \$9,360 as of July 31, 2017.

**NOTE 11 NATURE AND AMOUNT OF RESTRICTED NET ASSETS**

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

	<u>2017</u>	<u>2016</u>
Time Restricted	\$ 104,673	\$ 113,317
Expansion of Education Program	25,000	40,000
Subsequent Year's Operations	15,000	15,000
Imputed Interest on Notes Payable	9,360	-
Interest in Net Assets of the Community Theatre		
Building Corporation	864,056	824,337
Contributed Lease	3,797,786	4,343,566
Total	<u>\$ 4,815,875</u>	<u>\$ 5,336,220</u>

**NOTE 12 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, 2017 under these leases are as follows:

<u>Year Ending July 31,</u>	<u>Amount</u>
2018	\$ 5,661

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

Future minimum payments as of July 31, 2017 under this lease are as follows:

<u>Year Ending July 31,</u>	<u>Amount</u>
2018	\$ 5,490

Rent expense for the years ended July 31, 2017 and 2016 totaled \$772,385 and \$757,025, respectively. This includes \$730,380 of in-kind rent expense for space donated by the Building Corporation.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA: THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2017 AND 2016**

**NOTE 13 ADVERTISING**

Advertising expense for the years ended July 31, 2017 and 2016 totaled \$271,737 and \$292,304, respectively.

**NOTE 14 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 15 LINE OF CREDIT**

The Theatre has a \$200,000 revolving line of credit available at a bank, none of which was used as of July 31, 2017 and 2016. The line of credit bears interest at 1% above the prime rate. The line of credit matures on August 1, 2018.

**NOTE 16 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, 2017 and 2016 totaled \$10,916 and \$14,282, respectively.

**NOTE 17 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 18 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, 2017 and 2016.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA: THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2017 AND 2016**

**NOTE 19 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 15 to 20 members of the 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>2017</u>	<u>2016</u>
Assets		
Cash, Receivables, Investments and Other Assets	\$ 2,394,932	\$ 2,310,274
Equipment, Net	<u>5,551,386</u>	<u>6,007,980</u>
Total Assets	<u><u>\$ 7,946,318</u></u>	<u><u>\$ 8,318,254</u></u>
Liabilities		
Accounts Payable	\$ 380	\$ 40
Net Assets		
Unrestricted	7,081,881	7,493,876
Permanently Restricted	<u>864,057</u>	<u>824,338</u>
Total Net Assets	<u>7,945,938</u>	<u>8,318,214</u>
Total Liabilities and Net Assets	<u><u>\$ 7,946,318</u></u>	<u><u>\$ 8,318,254</u></u>
Revenues	\$ 159,972	\$ 37,388
Expenses	<u>532,247</u>	<u>566,737</u>
Change in Net Assets	<u><u>\$ (372,275)</u></u>	<u><u>\$ (529,349)</u></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, 2018. There were no outstanding amounts at July 31, 2017 and 2016.

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, 2017 AND 2016**

**NOTE 19 RELATED PARTY TRANSACTIONS (CONTINUED)**

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

	<u>2017</u>	<u>2016</u>
Donated Lease Expense to the Building Corporation	\$ 730,380	\$ 730,380
Contributions from the Building Corporation	65,000	75,000
Contributions from Board of Directors	22,365	20,575
Contributions from Employers of the Board of Directors	14,600	4,460
Advertising Revenues from Employers of the Board of Directors	3,465	3,100
Program Sponsorships from Employers of the Board of Directors	139,000	120,500
Special Performance Revenues from Employers of the Board of Directors	9,007	8,748
Rental Revenue from Employers of the Board of Directors	880	-

**NOTE 20 SUBSEQUENT EVENTS**

Management evaluated subsequent events through November 20, 2017, the date the financial statements were available to be issued. Events or transactions occurring after July 31, 2017, but prior to November 20, 2017, that provided additional evidence about conditions that existed at July 31, 2017, have been recognized in the financial statements for the year ended July 31, 2017. Events or transactions that provided evidence about conditions that did not exist at July 31, 2017, 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, 2017.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
DBA: THEATRE CEDAR RAPIDS  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JULY 31, 2017**

	Program Services			Supporting Services		Total Supporting Services	Total Functional Expenses
	Production	Education	Total Program Services	Fundraising	Management and General		
<b>EXPENSES</b>							
Salaries	\$ 584,202	\$ 102,258	\$ 686,460	\$ 104,552	\$ 123,261	\$ 227,813	\$ 914,273
Payroll Taxes and Fringe Benefits	146,644	25,668	172,312	26,244	30,941	57,185	229,497
Contract Services	208,622	53,382	262,004	7,156	7,156	14,312	276,316
Facilities and Maintenance	73,159	6,013	79,172	6,148	7,249	13,397	92,569
Utilities	52,168	9,131	61,299	9,336	11,007	20,343	81,642
Office and Administrative	89,018	10,889	99,907	10,030	28,411	38,441	138,348
Development	-	-	-	11,350	-	11,350	11,350
Production and Artistic	318,049	783	318,832	3,134	1,959	5,093	323,925
Promotion	152,031	6,610	158,641	4,958	1,653	6,611	165,252
Education Programs	-	28,673	28,673	-	-	-	28,673
Volunteer Programs	9,997	-	9,997	-	-	-	9,997
In-Kind Contributions	123,849	-	123,849	1,540	3,200	4,740	128,589
Donated Lease Expense	445,531	80,342	525,873	80,342	124,165	204,507	730,380
Depreciation and Amortization	39,858	6,977	46,835	7,133	8,410	15,543	62,378
Miscellaneous	2,643	459	3,102	469	553	1,022	4,124
<b>Total Expenses</b>	<b>\$ 2,245,771</b>	<b>\$ 331,185</b>	<b>\$ 2,576,956</b>	<b>\$ 272,392</b>	<b>\$ 347,965</b>	<b>\$ 620,357</b>	<b>\$ 3,197,313</b>



**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
DBA: THEATRE CEDAR RAPIDS  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JULY 31, 2016**

	Program Services			Supporting Services		Total Supporting Services	Total Functional Expenses
	Production	Education	Total Program Services	Fundraising	Management and General		
<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>



Investment advisory services are offered through CliftonLarsonAllen  
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