

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JULY 31, 2018 AND 2017**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
DBA: THEATRE CEDAR RAPIDS  
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## 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, 2018 and 2017, 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, 2018 and 2017, 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  
December 17, 2018

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA: THEATRE CEDAR RAPIDS**  
**STATEMENTS OF FINANCIAL POSITION**  
**JULY 31, 2018 AND 2017**

	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 48,879	\$ 32,046
Unconditional Promises to Give, Net	57,778	91,888
Accounts Receivable	19,658	23,223
Current Portion of Contributed Lease	593,156	568,974
Prepaid Expenses and Other Assets	82,326	104,862
Total Current Assets	801,797	820,993
<b>EQUIPMENT, NET</b>	162,126	218,618
<b>OTHER ASSETS</b>		
Deferred Income Taxes, Net	7,125	7,125
Unconditional Promises to Give, Net	25,888	52,785
Interest in Assets of the Community Theatre Building Corporation **	892,685	864,056
Beneficial Interest in Assets Held by Community Foundation	297,048	291,282
Present Value of Contributed Lease, Less Current Portion Above Collections	2,635,656	3,228,812
Total Other Assets	3,858,402	4,444,060
Total Assets	\$ 4,822,325	\$ 5,483,671
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 53,785	\$ 39,795
Accrued Expenses	8,092	11,701
Deferred Revenue	258,797	228,312
Current Maturities of Notes Payable	120,000	-
Total Current Liabilities	440,674	279,808
<b>LONG-TERM LIABILITIES</b>		
Notes Payable	48,598	45,640
Total Liabilities	489,272	325,448
<b>NET ASSETS</b>		
Unrestricted	71,488	342,348
Temporarily Restricted	4,261,565	4,815,875
Total Net Assets	4,333,053	5,158,223
Total Liabilities and Net Assets	\$ 4,822,325	\$ 5,483,671

\*\* See Notes 4 and 16 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, 2018 AND 2017**

	2018		
	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 203,051	\$ -	\$ 203,051
Grants	42,688	50,000	92,688
Corporate Sponsorships, Donations and Matching Gifts	299,420	-	299,420
Contributed Goods and Services	158,389	-	158,389
Government Grants	41,954	20,000	61,954
Community Theatre Building Corporation Contribution	65,000	-	65,000
Special Events, Net of Expenses of \$21,653 for 2018 and \$23,564 for 2017	10,643	-	10,643
Advertising Sales	35,200	-	35,200
Parking, Box Office, Rental, and Other	120,531	-	120,531
Production	872,036	-	872,036
Concessions and Catering, Net of Expenses of \$61,378 for 2018 and \$74,989 for 2017	78,344	-	78,344
Sale of Merchandise, Net of Expenses of \$16,292 for 2018 and \$27,342 for 2017	8,827	-	8,827
Education	119,548	-	119,548
Net Change in Beneficial Interest in Assets Held by Community Foundation	12,202	-	12,202
Net Change in Interest in Assets of the Community Theatre Building Corporation	-	28,629	28,629
Total Support and Revenue	<u>2,067,833</u>	<u>98,629</u>	<u>2,166,462</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>			
Satisfaction of Time and Purpose Restrictions	<u>814,345</u>	<u>(814,345)</u>	<u>-</u>
Total Support, Revenue and Net Assets Released from Restrictions	2,882,178	(715,716)	2,166,462
<b>EXPENSES</b>			
Program Services	2,555,196	-	2,555,196
Fundraising	251,294	-	251,294
Management and General	346,548	-	346,548
Total Expenses	<u>3,153,038</u>	<u>-</u>	<u>3,153,038</u>
Change in Net Assets from Operations	(270,860)	(715,716)	(986,576)
<b>NONOPERATING ACTIVITIES</b>			
Contributed Lease	<u>-</u>	<u>161,406</u>	<u>161,406</u>
<b>CHANGE IN NET ASSETS</b>	(270,860)	(554,310)	(825,170)
Net Assets - Beginning of Year	<u>342,348</u>	<u>4,815,875</u>	<u>5,158,223</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 71,488</u>	<u>\$ 4,261,565</u>	<u>\$ 4,333,053</u>

See accompanying Notes to Financial Statements.

2017		
Unrestricted	Temporarily Restricted	Total
\$ 268,223	\$ -	\$ 268,223
71,022	25,000	96,022
306,100	-	306,100
132,210	9,360	141,570
41,876	15,000	56,876
65,000	-	65,000
19,435	-	19,435
33,165	-	33,165
137,702	-	137,702
866,746	-	866,746
82,555	-	82,555
12,823	-	12,823
117,226	-	117,226
15,151	-	15,151
-	39,719	39,719
<u>2,169,234</u>	<u>89,079</u>	<u>2,258,313</u>
<u>794,025</u>	<u>(794,025)</u>	<u>-</u>
2,963,259	(704,946)	2,258,313
2,576,956	-	2,576,956
272,392	-	272,392
347,965	-	347,965
<u>3,197,313</u>	<u>-</u>	<u>3,197,313</u>
(234,054)	(704,946)	(939,000)
-	184,601	184,601
(234,054)	(520,345)	(754,399)
<u>576,402</u>	<u>5,336,220</u>	<u>5,912,622</u>
<u>\$ 342,348</u>	<u>\$ 4,815,875</u>	<u>\$ 5,158,223</u>

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, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (825,170)	\$ (754,399)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities		
Depreciation and Amortization	60,431	62,378
Contributed Goods and Services	(319,795)	(326,171)
Contributed Goods and Services Expense	891,726	858,969
Net Realized and Unrealized Gain in Beneficial Interest in Assets Held by Community Foundation	(12,202)	(15,151)
Net Realized and Unrealized Gain in Assets of the Community Theatre Building Corporation	(28,629)	(39,719)
Effects of Changes in Operating Assets and Liabilities:		
Unconditional Promises to Give	61,007	23,645
Accounts Receivable	3,565	5,980
Prepaid Expenses and Other Assets	22,536	(20,110)
Accounts Payable	13,990	13,766
Accrued Expenses and Other Liabilities	(3,609)	3,949
Deferred Revenue	30,485	(42,563)
Net Cash Used by Operating Activities	(105,665)	(229,426)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(3,938)	(3,114)
Transfer to Community Foundation	-	(50,000)
Transfer from Community Foundation	6,436	61,132
Net Cash Provided by Investing Activities	2,498	8,018
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Notes Payable	205,000	185,000
Payments on Notes Payable	(85,000)	(130,000)
Net Cash Provided by Financing Activities	120,000	55,000
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	16,833	(166,408)
Cash and Cash Equivalents - Beginning of Year	32,046	198,454
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 48,879	\$ 32,046

See accompanying Notes to Financial Statements.



**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.  
DBA: THEATRE CEDAR RAPIDS  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2018 AND 2017**

**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 13-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 net realizable value.

**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, 2018 AND 2017**

**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, 2018 and 2017.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA: THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2018 AND 2017**

**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, 2018 AND 2017**

**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 Internal Revenue Service (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, 2018 AND 2017**

**NOTE 2 UNCONDITIONAL PROMISES TO GIVE**

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

	2018	2017
Unconditional Promises to Give	\$ 94,058	\$ 156,811
Less: Allowance for Doubtful Accounts	(8,000)	(5,000)
Less: Discount to Present Value	(2,392)	(7,138)
Net Unconditional Promises to Give	\$ 83,666	\$ 144,673
	2018	2017
Amounts Due In:		
Less than One Year	\$ 57,778	\$ 91,888
One to Five Years	25,888	52,785
Total	\$ 83,666	\$ 144,673

Unconditional promises to give expected to be collected in more than one year from July 31, 2018 and 2017 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:

	2018	2017
Equipment	\$ 632,522	\$ 628,755
Less: Accumulated Depreciation	(470,396)	(410,137)
Net Equipment	\$ 162,126	\$ 218,618

Depreciation expense totaled \$60,431 and \$62,378 for the years ended July 31, 2018 and 2017, respectively.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
**DBA: THEATRE CEDAR RAPIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2018 AND 2017**

**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, 2018 and 2017, 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, 2018 and 2017, \$7,943 and \$4,375, 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, 2018 AND 2017**

**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.**  
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**NOTES TO FINANCIAL STATEMENTS**  
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**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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest in Assets of the Community				
Theatre Building Corporation	\$ -	\$ -	\$ 892,685	\$ 892,685
Beneficial Interest in Assets Held				
by Community Foundation	-	-	297,048	297,048
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,189,733</u>	<u>\$ 1,189,733</u>

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>\$ 1,155,340</u>	<u>\$ 1,155,338</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, 2018:

	Interest in Assets of the Community Theatre Building Corporation	Beneficial Interest in Assets Held by Community Foundation	Total
Balance - July 31, 2017	\$ 864,056	\$ 291,282	\$ 1,155,338
Distributions	-	(6,436)	(6,436)
Change in Beneficial Interest in Assets Held by Community Foundation	-	12,202	12,202
Change in Interest in Assets of the Community Theatre Building Corporation	28,629	-	28,629
Balance - July 31, 2018	<u>\$ 892,685</u>	<u>\$ 297,048</u>	<u>\$ 1,189,733</u>



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**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, 2017:

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

**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 as 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, 2018 and 2017, 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.

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**NOTE 8 CONTRIBUTED LEASE (CONTINUED)**

	2018	2017
Contributed Lease	\$ 3,797,786	\$ 4,343,566
Less: Discount to Present Value	(568,974)	(545,780)
Net Present Value of Contributed Lease	\$ 3,228,812	\$ 3,797,786
Amounts to be Recognized in:		
Less Than One Year	\$ 593,156	
One to Five Years	2,635,656	
Total	\$ 3,228,812	

**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.

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**NOTE 9 ENDOWMENTS (CONTINUED)**

Endowment net asset composition by type of fund as of July 31, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board Designated Endowment Funds	\$ 297,048	\$ -	\$ -	\$ 297,048

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	\$ 291,282	\$ -	\$ -	\$ 291,282

Changes in endowment net assets for the year ended July 31, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets - Beginning of Year	\$ 291,282	\$ -	\$ -	\$ 291,282
Change in Beneficial Interest	12,202	-	-	12,202
Appropriation of Endowment Assets for Program Expenditures	(6,436)	-	-	(6,436)
Net Assets - End of Year	\$ 297,048	\$ -	\$ -	\$ 297,048

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)	-	-	(61,132)
Net Assets - End of Year	\$ 291,282	\$ -	\$ -	\$ 291,282

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**NOTE 10 NOTES PAYABLE**

The Theatre has a \$200,000 revolving line of credit available at a bank with a balance of \$120,000 and \$-0- as of July 31, 2018 and 2017, respectively. The line of credit bears interest at 1% above the prime rate. The line of credit matured on August 1, 2018. The line of credit was renewed and now matures on May 1, 2019.

The Theatre has a note payable to the Building Corporation with a balance of \$48,598 and \$45,640 as of July 31, 2018 and 2017, respectively. The note payable bears no interest, requires no monthly payments, and the full amount is due July 28, 2020.

**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:

	2018	2017
Time Restricted	\$ 63,666	\$ 104,673
Expansion of Education Program	50,000	25,000
Subsequent Year's Operations	20,000	15,000
Imputed Interest on Notes Payable	6,402	9,360
Interest in Net Assets of the Community Theatre		
Building Corporation	892,685	864,056
Contributed Lease	3,228,812	3,797,786
Total	\$ 4,261,565	\$ 4,815,875

**NOTE 12 ADVERTISING**

Advertising expense for the years ended July 31, 2018 and 2017 totaled \$258,110 and \$271,737, respectively.

**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.

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**NOTE 14 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, 2018 and 2017 totaled \$11,941 and \$10,916, respectively.

**NOTE 15 INCOME TAXES**

The Theatre's deferred tax asset consists of U.S. federal general business credits generated during the year ending 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, 2018 and 2017.

**NOTE 16 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>2018</u>	<u>2017</u>
Assets		
Cash, Receivables, Investments and Other Assets	\$ 2,327,385	\$ 2,394,932
Equipment, Net	5,224,992	5,551,386
Total Assets	<u>\$ 7,552,377</u>	<u>\$ 7,946,318</u>
Liabilities		
Accounts Payable	\$ -	\$ 380
Net Assets		
Unrestricted	6,716,949	7,081,881
Permanently Restricted	835,428	864,057
Total Net Assets	<u>7,552,377</u>	<u>7,945,938</u>
Total Liabilities and Net Assets	<u>\$ 7,552,377</u>	<u>\$ 7,946,318</u>
Revenues	\$ 128,742	\$ 159,972
Expenses	522,303	532,247
Change in Net Assets	<u>\$ (393,561)</u>	<u>\$ (372,275)</u>

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**NOTE 16 RELATED PARTY TRANSACTIONS (CONTINUED)**

The Theatre also has assigned certain rents and profits as collateral for the Building Corporation's line of credit with maturity date of May 1, 2019. There were no outstanding amounts at July 31, 2018 and 2017.

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.

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

	<u>2018</u>	<u>2017</u>
Donated Lease Expense to the Building Corporation	\$ 730,380	\$ 730,380
Contributions from the Building Corporation	65,000	65,000
Contributions from Board of Directors	17,644	22,365
Contributions from Employers of the Board of Directors	22,035	14,600
Advertising Revenues from Employers of the Board of Directors	7,950	3,465
Program Sponsorships from Employers of the Board of Directors	129,500	139,000
Special Performance Revenues from Employers of the Board of Directors	9,453	9,007
Rental Revenue from Employers of the Board of Directors	213	880

**NOTE 17 SUBSEQUENT EVENTS**

Management evaluated subsequent events through December 17, 2018, the date the financial statements were available to be issued. Events or transactions occurring after July 31, 2018, but prior to December 17, 2018, that provided additional evidence about conditions that existed at July 31, 2018, have been recognized in the financial statements for the year ended July 31, 2018. Events or transactions that provided evidence about conditions that did not exist at July 31, 2018, 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, 2018.

In October 2018, the Organization entered into an agreement to purchased \$67,626 of equipment. The repayment plan includes 48 monthly payments of \$1,635.

**THE COMMUNITY THEATRE OF CEDAR RAPIDS, INC.**  
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**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JULY 31, 2018**  
(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	\$ 585,524	\$ 101,902	\$ 687,426	\$ 98,228	\$ 120,837	\$ 219,065	\$ 906,491
Payroll Taxes and Fringe Benefits	149,505	26,108	175,613	25,167	30,691	55,858	231,471
Contract Services	179,155	46,620	225,775	-	-	-	225,775
Facilities and Maintenance	61,404	4,568	65,972	4,403	5,417	9,820	75,792
Utilities	51,853	9,055	60,908	8,729	10,738	19,467	80,375
Office and Administrative	80,437	12,881	93,318	10,475	40,425	50,900	144,218
Development	-	-	-	7,063	-	7,063	7,063
Production and Artistic	349,420	755	350,175	3,022	1,888	4,910	355,085
Promotion	120,890	5,256	126,146	3,942	1,314	5,256	131,402
Education Programs	-	34,772	34,772	-	-	-	34,772
Volunteer Programs	11,395	-	11,395	-	-	-	11,395
In-Kind Contributions	152,028	-	152,028	3,360	3,000	6,360	158,388
Donated Lease Expense	445,531	80,342	525,873	80,342	124,165	204,507	730,380
Depreciation and Amortization	38,987	6,808	45,795	6,563	8,073	14,636	60,431
<b>Total Expenses</b>	<b>\$ 2,226,129</b>	<b>\$ 329,067</b>	<b>\$ 2,555,196</b>	<b>\$ 251,294</b>	<b>\$ 346,548</b>	<b>\$ 597,842</b>	<b>\$ 3,153,038</b>

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**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JULY 31, 2017**  
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	Program Services			Supporting Services			Total Functional Expenses
	Production	Education	Total Program Services	Fundraising	Management and General	Total Supporting Services	
<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>





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