

THE STEPPINGSTONE THEATRE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

THE STEPPINGSTONE THEATRE

FINANCIAL STATEMENTS

For the Year Ended August 31, 2007

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To the Board of Directors
The Steppingstone Theatre
Saint Paul, Minnesota

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of financial position of The Steppingstone Theatre as of August 31, 2007, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Theatre's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Theatre's financial statements for the year ended August 31, 2006, and in our report dated September 21, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Steppingstone Theatre as of August 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

*Mahoney Ulbrich
Christiansen Russ P.A.*

Saint Paul, Minnesota
November 7, 2007

THE STEPPINGSTONE THEATRE
STATEMENT OF FINANCIAL POSITION

August 31, 2007
(With Comparative Totals for 2006)

	<u>ASSETS</u>	
	<u>2007</u>	<u>2006</u>
Current assets:		
Cash	\$ 73,075	\$ 20,330
Certificate of deposit	-	64,969
Accounts receivable	3,038	1,794
Contributions receivable	8,300	47,962
Government grants receivable	100,000	22,263
Prepaid expenses	51,405	52,827
Total current assets	<u>235,818</u>	<u>210,145</u>
Property and equipment:		
Building acquisition and renovation costs	4,151,996	792,349
Office equipment	11,985	11,985
	<u>4,163,981</u>	<u>804,334</u>
Less accumulated depreciation	(11,285)	(10,601)
Net property and equipment	<u>4,152,696</u>	<u>793,733</u>
Other assets:		
Cash restricted for building acquisition and renovation	637,761	674,513
Contributions receivable restricted for building acquisition and renovation	439,442	198,653
Security deposits	100	-
Total assets	<u>\$ 5,465,817</u>	<u>\$ 1,877,044</u>
	<u>LIABILITIES AND NET ASSETS</u>	
Current liabilities:		
Current portion of long-term debt	\$ 28,409	\$ 11,707
Accounts payable	19,291	41,950
Construction payables	1,010,822	-
Line of credit	610,429	-
Accrued payroll	6,437	5,551
Deferred revenue	13,703	5,201
Total current liabilities	<u>1,689,091</u>	<u>64,409</u>
Long-term debt, less current portion	<u>639,780</u>	<u>519,343</u>
Net assets:		
Unrestricted	2,004,480	372,164
Temporarily restricted	1,132,466	921,128
Total net assets	<u>3,136,946</u>	<u>1,293,292</u>
Total liabilities and net assets	<u>\$ 5,465,817</u>	<u>\$ 1,877,044</u>

See accompanying notes to financial statements.

THE STEPPINGSTONE THEATRE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended August 31, 2007
(With Comparative Totals for 2006)

	2007			2006
	Unrestricted	Temporarily Restricted	Total	
Support and revenues:				
Support:				
Corporate and foundation contributions	\$ 167,074	\$ 54,013	\$ 221,087	\$ 194,170
Contributions from individuals	21,425	-	21,425	23,243
Capital campaign contributions	1,241,972	204,037	1,446,009	1,140,793
Government grants	530,000	-	530,000	75,000
Net assets released from restrictions	46,712	(46,712)	-	-
Total support	<u>2,007,183</u>	<u>211,338</u>	<u>2,218,521</u>	<u>1,433,206</u>
Revenues:				
Residencies	72,257	-	72,257	90,935
Education	83,806	-	83,806	84,650
Productions	200,993	-	200,993	163,506
Interest and dividend income	29,333	-	29,333	13,135
Other	7,836	-	7,836	6,010
Total revenues	<u>394,225</u>	<u>-</u>	<u>394,225</u>	<u>358,236</u>
Total support and revenues	<u>2,401,408</u>	<u>211,338</u>	<u>2,612,746</u>	<u>1,791,442</u>
Expenses:				
Program services:				
Residencies	134,506	-	134,506	147,081
Education	104,056	-	104,056	99,625
Productions	326,339	-	326,339	297,444
Total program services	<u>564,901</u>	<u>-</u>	<u>564,901</u>	<u>544,150</u>
Support services:				
Management and general	61,192	-	61,192	61,656
Fundraising	38,760	-	38,760	39,933
Capital campaign	104,239	-	104,239	107,376
Total support services	<u>204,191</u>	<u>-</u>	<u>204,191</u>	<u>208,965</u>
Total expenses	<u>769,092</u>	<u>-</u>	<u>769,092</u>	<u>753,115</u>
Change in net assets	1,632,316	211,338	1,843,654	1,038,327
Net assets, beginning of year	<u>372,164</u>	<u>921,128</u>	<u>1,293,292</u>	<u>254,965</u>
Net assets, end of year	<u>\$2,004,480</u>	<u>\$1,132,466</u>	<u>\$3,136,946</u>	<u>\$1,293,292</u>

See accompanying notes to financial statements.

THE STEPPINGSTONE THEATRE

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2007
(With Comparative Totals for 2006)

	2007				Total	2006
	Program Services	Management and General	Fund-raising	Capital Campaign		
Salaries	\$ 235,623	\$ 14,204	\$ 28,867	\$ 24,176	\$ 302,870	\$ 272,038
Payroll taxes	20,782	3,450	4,009	-	28,241	23,582
Employee benefits	4,483	1,212	2,016	-	7,711	10,432
	<u>260,888</u>	<u>18,866</u>	<u>34,892</u>	<u>24,176</u>	<u>338,822</u>	<u>306,052</u>
Telephone	4,204	162	460	-	4,826	4,843
Office rent	12,376	4,125	-	-	16,501	18,953
Repairs and maintenance	450	280	-	50	780	1,054
Office supplies and expense	3,910	10,061	159	993	15,123	13,099
Advertising/brochures	71,289	1,519	1,718	8,484	83,010	60,532
Promotion	4,506	466	-	898	5,870	4,395
Postage	19,869	3,759	148	1,683	25,459	24,929
Professional services	-	9,970	-	-	9,970	13,228
Insurance	-	6,253	-	426	6,679	8,774
Travel	1,041	18	150	27	1,236	1,643
Consultants	146,920	185	600	47,874	195,579	256,019
Production costs	31,390	-	-	-	31,390	27,048
Depreciation	-	684	-	-	684	1,485
Miscellaneous	8,058	4,844	633	7,138	20,673	9,485
Interest expense	-	-	-	-	-	1,576
Special event expenses	-	-	-	12,490	12,490	-
	<u>\$ 564,901</u>	<u>\$ 61,192</u>	<u>\$ 38,760</u>	<u>\$ 104,239</u>	<u>\$ 769,092</u>	<u>\$ 753,115</u>

See accompanying notes to financial statements.

THE STEPPINGSTONE THEATRE

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2007
(With Comparative Totals for 2006)

Increase (decrease) in cash

	2007	2006
Cash flows from operating activities:		
Change in net assets	\$ 1,843,654	\$ 1,038,327
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	684	1,485
Contributions and grants restricted for long-term purposes	(1,976,009)	(873,166)
Contributions of property and equipment	(39,831)	-
Interest and dividends reinvested	-	(3,035)
Accounts receivable	(1,244)	500
Contributions receivable	39,662	2,008
Prepaid expenses	1,422	(14,490)
Security deposits	(100)	3,000
Accounts payable	(22,659)	17,724
Accrued payroll	886	1,913
Deferred revenue	8,502	(712)
Net cash flows from operating activities	<u>(145,033)</u>	<u>173,554</u>
Cash flows from investing activities:		
Decrease (increase) in cash restricted for long-term purposes	36,752	(674,513)
Purchase of property and equipment	(2,308,994)	(150,672)
Certificate of deposit redeemed	64,969	-
Net cash flows from investing activities	<u>(2,207,273)</u>	<u>(825,185)</u>
Cash flows from financing activities:		
Contributions and grants restricted for building acquisition and renovation	1,657,483	652,250
Borrowings on new long-term debt	150,000	-
Payments made on contract for deed	(12,861)	(8,950)
Funds advanced (repaid) on line of credit	610,429	(50,000)
Net cash flows from financing activities	<u>2,405,051</u>	<u>593,300</u>
Net increase (decrease) in cash	52,745	(58,331)
Cash, beginning of year	<u>20,330</u>	<u>78,661</u>
Cash, end of year	<u>\$ 73,075</u>	<u>\$ 20,330</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ 1,576</u>
Property and equipment included in construction payables	<u>1,010,822</u>	<u>-</u>

See accompanying notes to financial statements.

THE STEPPINGSTONE THEATRE
NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007
(With Comparative Totals for 2006)

1. **STATEMENT OF PURPOSE**

The Steppingstone Theatre (the Theatre) is a children's theatre dedicated to developing the "whole child" by using educational theatre programs and fully staged productions to build self-esteem and a sense of community while celebrating diversity in a supportive, noncompetitive environment. The Theatre, a non-profit 501(c)(3) organization, operates in Saint Paul, Minnesota and was established in 1988.

The Theatre's primary sources of revenue include contributions, government grants, and program revenue from education and residency programs and from performing productions.

The Theatre's programs include the following:

Education – Each fall, winter, and summer, the Theatre offers theatre classes for children and youth from ages three to sixteen. All classes are designed to encourage self-esteem, collaboration, and imagination.

Residencies and Community Education – Residency programs are offered to Saint Paul area schools that use the techniques of theatre arts to bring a deeper understanding of curriculum topics from history and social studies to math. The Theatre also provides theatre arts classes for after-school programs, community education, and park and recreation sites throughout the Saint Paul area.

Mainstage Program – The Theatre provides six productions each year. Most productions are originals commissioned from local writers on themes and stories relevant to today's children and youth.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation – The Theatre reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Theatre has no permanently restricted net assets.

(Continued)

THE STEPPINGSTONE THEATRE
NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007
(With Comparative Totals for 2006)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and Cash Equivalents – For purposes of the statement of cash flows, highly liquid investments with original maturities of ninety days or less are considered cash equivalents.

Concentrations of Credit Risk – The Theatre maintains cash balances with two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At times the amount on deposit exceeds the insured limit of the institutions and exposes the Theatre to a collection risk. Management reviews the credit worthiness of financial institutions on a regular basis. The Theatre has not experienced any losses as a result of these deposits. As of August 31, 2007, funds held at financial institutions exceeded insured limits by \$510,308.

Property and Equipment – Property and equipment are carried at cost and depreciated over the estimated useful lives of the assets using the straight-line method. Equipment is depreciated over three to five years. Expenditures for major renewals and betterments that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Contributions – Contributions are recognized when the donor makes a commitment to give to the Theatre that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily restricted net assets and transferred to unrestricted net assets when restrictions expire or the condition is met. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. Contributions restricted for property and equipment are released as expenditures for property and equipment are made.

Contributed Materials – Contributed materials are recorded as contributions when received at their fair value.

Contributed Services – Contributed services are recorded as contributions, at their fair value, when the service creates or enhances a non-financial asset or the service requires specialized skills that would need to be purchased if not provided by donation. A substantial number of unpaid volunteers have made significant contributions of their time to the Theatre's programs. The value of this contributed time is not reflected in these statements, since it does not meet the requirements for recognition in the financial statements.

Government Grants – The Theatre records government grants as exchange transactions. Revenue is recognized when expenses reimbursable under grant agreements have been incurred by the Theatre.

(Continued)

THE STEPPINGSTONE THEATRE
NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007
(With Comparative Totals for 2006)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue Recognition – Ticket sales and fees are recognized when earned. Expenses are matched with the related revenues. Advanced ticket sales for 2007-08 productions are recorded as deferred revenue.

Functional Expenses – Expenses have been allocated among program and supporting services classifications based upon direct expenditures and estimates made by management.

Income Taxes – The Theatre is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable Minnesota Statutes.

Comparative Totals – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Theatre's financial statements for the year ended August 31, 2006, from which the summarized information was derived.

3. **CONTRIBUTIONS RECEIVABLE**

Unrestricted contribution receivables are due in 2008.

The Theatre is conducting a capital campaign to raise funds to renovate a building purchased in August 2005. Contributions are generally restricted for payment of costs relating to the acquisition and renovation of the building and for costs of the capital campaign. The cost of the project including the related capital campaign expenses is estimated to be \$5 million. During the renovation period, all costs incurred on the building, including interest, are capitalized. No depreciation will be recorded until the building is placed in service. As of August 31, 2007, the Theatre has raised approximately \$2.6 million.

Contributions receivable restricted for building acquisition and renovation are due as follows:

2008	\$ 337,537
2009	45,084
2010	60,250
2011	5,000
	<u>447,871</u>
Less discounts to net present value	(8,429)
	<u><u>\$ 439,442</u></u>

(Continued)

THE STEPPINGSTONE THEATRE

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007
(With Comparative Totals for 2006)

3. **CONTRIBUTIONS RECEIVABLE (Continued)**

Contributions receivable due after August 31, 2007 have been discounted to their net present value using a rate of 5%. Uncollectible contributions receivable are not expected to be significant.

In addition, the Theatre received a conditional pledge of \$350,000. The pledge will be received if the Theatre raises sufficient funds to complete its capital project as proposed.

4. **LINE OF CREDIT**

The Theatre has a revolving line of credit with a local bank for \$1,000,000. The line has a variable interest rate of one point above the prime rate as published in the Wall Street Journal Midwest edition. At August 31, 2007 the rate was 9.25%. Under the terms of the agreement, the Theatre is required to make monthly interest payments until May 10, 2010, at which time all principal and unpaid interest is due. The line of credit is secured by the property under renovation.

5. **LONG-TERM DEBT**

Long-term debt consists of the following:

	2007	2006
Contract for deed	\$ 518,189	\$ 531,050
Saint Paul STAR loan	150,000	-
	<u>\$ 668,189</u>	<u>\$ 531,050</u>

Contract for Deed – The contract for deed was entered into in August 2005 for the purchase of a building. The original amount of the contract was \$540,000. The contract has an interest rate of 7.5% and requires monthly payments of \$4,350 until August 1, 2010, at which time any remaining balance is due.

Saint Paul STAR Loan – The Saint Paul STAR loan was entered into on April 26, 2007 for the original amount of \$150,000. The loan requires thirty-six monthly payments of \$4,429 beginning on May 1, 2008 until April 1, 2011, at which time the remaining balance is due. The loan bears no interest until April 1, 2008, when the interest rate will be 4%. The loan shall be become due immediately if the Theatre relocates outside the City of Saint Paul.

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THE STEPPINGSTONE THEATRE
NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007
(With Comparative Totals for 2006)

5. **LONG-TERM DEBT (Continued)**

Maturities of long-term debt are as follows:

2007		\$ 28,409
2008		63,447
2009		541,430
2010		34,903
		668,189
Less current portion		(28,409)
		\$ 639,780

For the years ended August 31, 2007 and 2006, interest expense was \$53,850 and \$31,778, respectively; of which \$53,850 and \$30,202 was capitalized.

6. **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are restricted for the following purposes:

	2007	2006
General operating restricted for future years	\$ 55,263	\$ 47,962
Building acquisition and renovation	1,077,203	873,166
	\$1,132,466	\$ 921,128

Temporarily restricted net assets at August 31, 2007 consist of \$684,724 in cash and \$447,742 in contributions receivable.

7. **GOVERNMENT GRANTS**

The Theatre was awarded \$725,000 (including a \$150,000 loan as described in note 5) in STAR grants to fund construction improvements to a building purchased by the Theatre. Under the grant agreements, the Theatre makes the required construction expenditures and then applies for reimbursement. As of August 31, 2007, the Theatre has expended all of the funds under the agreements and has applied for reimbursement for all eligible costs except \$100,000, which is recorded as government grants receivable.

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THE STEPPINGSTONE THEATRE
NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2007
(With Comparative Totals for 2006)

8. **OPERATING LEASES**

The Theatre leases its office facilities under an operating lease that requires monthly rental payments of \$1,388 through December 31, 2007. Future minimum lease payments of \$4,165 are required under the operating lease in the upcoming fiscal year. In addition, The Theatre leases rehearsal and theater space on a per-production basis.

Rent expense was \$39,237 and \$38,181 during the years ended August 31, 2007 and 2006, respectively.

The Theatre will move into its renovated building in October 2007. It will continue to lease its current office space through the end of the lease term.

9. **RELATED PARTY TRANSACTIONS**

The Theatre entered into transactions with a company whose owner is a member of the Board of Directors. During the fiscal year ended August 31, 2007 and 2006, the Theatre paid \$65,744 and \$91,705, respectively, to the company for services provided to the Theatre.

10. **CONCENTRATIONS**

At August 31, 2007, contributions to the capital campaign for 2007 include \$1,025,000 from four donors. In addition, contributions receivable includes \$365,000 from three donors.