

THE STEPPINGSTONE THEATRE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

THE STEPPINGSTONE THEATRE

FINANCIAL STATEMENTS

For the Year Ended August 31, 2008

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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, 2008, 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, 2007, and in our report dated November 7, 2007, 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, 2008, 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
December 22, 2008

THE STEPPINGSTONE THEATRE

STATEMENT OF FINANCIAL POSITION

August 31, 2008
(With Comparative Totals for 2007)

	<u>ASSETS</u>	
	<u>2008</u>	<u>2007</u>
Current assets:		
Cash	\$ 12,551	\$ 73,075
Cash restricted for 2009 programs	60,324	-
Total cash	<u>72,875</u>	<u>73,075</u>
Accounts receivable	14,419	3,038
Contributions receivable, current portion	162,522	8,300
Government grants receivable	124,000	100,000
Prepaid expenses	<u>42,058</u>	<u>51,405</u>
Total current assets	<u>415,874</u>	<u>235,818</u>
Property and equipment:		
Building acquisition and renovation costs	4,366,769	4,151,996
Office equipment	<u>63,551</u>	<u>11,985</u>
	4,430,320	4,163,981
Less accumulated depreciation	<u>(148,297)</u>	<u>(11,285)</u>
Net property and equipment	<u>4,282,023</u>	<u>4,152,696</u>
Other assets:		
Cash restricted for building acquisition and renovation	-	637,761
Contributions receivable, noncurrent portion	90,646	-
Contributions receivable restricted for building acquisition and renovation	-	439,442
Security deposits	<u>100</u>	<u>100</u>
Total assets	<u>\$ 4,788,643</u>	<u>\$ 5,465,817</u>

	<u>LIABILITIES AND NET ASSETS</u>	
Current liabilities:		
Current portion of long-term debt	\$ 14,786	\$ 28,409
Accounts payable	33,959	14,120
Construction payables	-	1,010,822
Line of credit	197,887	610,429
Accrued interest	4,181	5,171
Accrued payroll	6,597	6,437
Deferred revenue	<u>10,449</u>	<u>13,703</u>
Total current liabilities	<u>267,859</u>	<u>1,689,091</u>
Long-term debt, less current portion	<u>641,542</u>	<u>639,780</u>
Net assets:		
Unrestricted	3,807,757	2,004,480
Temporarily restricted	<u>71,485</u>	<u>1,132,466</u>
Total net assets	<u>3,879,242</u>	<u>3,136,946</u>
Total liabilities and net assets	<u>\$ 4,788,643</u>	<u>\$ 5,465,817</u>

See accompanying notes to financial statements.

THE STEPPINGSTONE THEATRE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended August 31, 2008
(With Comparative Totals for 2007)

	2008			2007
	Unrestricted	Temporarily Restricted	Total	
Support and revenues:				
Support:				
Corporate and foundation contributions	\$ 152,976	\$ 60,324	\$ 213,300	\$ 221,087
Contributions from individuals	9,886	-	9,886	21,425
Capital campaign contributions	1,128,161	-	1,128,161	1,446,009
Government grants	69,463	11,161	80,624	530,000
Net assets released from restrictions	1,132,466	(1,132,466)	-	-
Total support	2,492,952	(1,060,981)	1,431,971	2,218,521
Revenues:				
Residencies	119,258	-	119,258	72,257
Education	112,282	-	112,282	83,806
Productions	268,211	-	268,211	207,829
Rental income	16,900	-	16,900	-
Royalty income	2,000	-	2,000	1,000
Interest and dividend income	2,624	-	2,624	29,333
Gain on sale of asset	500	-	500	-
Total revenues	521,775	-	521,775	394,225
Total support and revenues	3,014,727	(1,060,981)	1,953,746	2,612,746
Expenses:				
Program services:				
Residencies	185,323	-	185,323	134,506
Education	166,097	-	166,097	104,056
Productions	551,589	-	551,589	326,339
Total program services	903,009	-	903,009	564,901
Support services:				
Management and general	139,982	-	139,982	61,192
Fundraising	52,676	-	52,676	38,760
Capital campaign	115,784	-	115,784	104,239
Total support services	308,441	-	308,441	204,191
Total expenses	1,211,450	-	1,211,450	769,092
Change in net assets	1,803,277	(1,060,981)	742,296	1,843,654
Net assets, beginning of year	2,004,480	1,132,466	3,136,946	1,293,292
Net assets, end of year	\$ 3,807,757	\$ 71,485	\$ 3,879,242	\$ 3,136,946

See accompanying notes to financial statements

THE STEPPINGSTONE THEATRE
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2008
(With Comparative Totals for 2007)

	2008				Management and General	Fund- raising	Capital Campaign	Total	2007
	Education	Mainstage	Residencies	Total					
Salaries	\$ 45,978	\$ 164,835	\$ 77,850	\$ 288,663	\$ 13,409	\$ 28,064	\$ 30,370	\$ 360,506	\$ 302,870
Payroll taxes	6,007	11,225	7,351	24,583	4,495	4,742	-	33,820	28,241
Employee benefits	1,341	1,046	1,091	3,478	600	2,040	-	6,118	7,711
	<u>53,326</u>	<u>177,106</u>	<u>86,292</u>	<u>316,724</u>	<u>18,504</u>	<u>34,846</u>	<u>30,370</u>	<u>400,444</u>	<u>338,822</u>
Telephone	809	1,214	1,619	3,642	1,502	405	704	6,253	4,826
Office rent	1,041	1,041	1,041	3,123	1,041	-	-	4,164	16,501
Repairs and maintenance	2,143	5,358	1,072	8,573	1,607	536	-	10,716	780
Office supplies and expense	458	5,986	1,549	7,993	18,328	122	9,074	35,517	15,123
Advertising/brochures	4,478	52,802	-	57,280	29,773	1,246	24,509	112,808	83,010
Promotion	675	6,546	-	7,221	1,986	125	2,486	11,818	5,870
Postage	2,055	21,251	763	24,069	3,638	23	2,896	30,626	25,459
Professional services	-	-	-	-	13,245	-	-	13,245	9,970
Insurance	6,080	15,200	3,040	24,320	4,560	1,520	-	30,400	6,679
Travel	71	182	1,040	1,293	953	54	722	3,022	1,236
Consultants	36,302	103,926	60,330	200,558	1,596	-	41,015	243,169	195,579
Production costs	3,458	22,145	832	26,435	929	-	3,500	30,864	31,390
Depreciation	28,900	72,250	14,450	115,600	21,675	7,225	-	144,500	684
Miscellaneous	65	990	177	1,232	967	14	508	2,721	20,673
Interest expense	17,662	44,156	8,831	70,649	13,247	4,416	-	88,312	-
Utilities	8,574	21,436	4,287	34,297	6,431	2,144	-	42,871	-
Special event expenses	-	-	-	-	-	-	-	-	12,490
	<u>\$ 166,097</u>	<u>\$ 551,589</u>	<u>\$ 185,323</u>	<u>\$ 903,009</u>	<u>\$ 139,982</u>	<u>\$ 52,676</u>	<u>\$ 115,784</u>	<u>\$ 1,211,450</u>	<u>\$ 769,092</u>

See accompanying notes to financial statements.

THE STEPPINGSTONE THEATRE

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2008
(With Comparative Totals for 2007)

Increase (decrease) in cash

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ 742,296	\$ 1,843,654
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	144,499	684
Contributions restricted for long-term purposes	(1,128,161)	(1,976,009)
Contributions of property and equipment	-	(39,831)
Gain on sale of asset	(500)	-
Accrued interest added to principal	755	-
Accounts receivable	(11,381)	(1,244)
Contributions receivable	(244,868)	39,662
Prepaid expenses	9,347	1,422
Security deposits	-	(100)
Accounts payable	19,839	(27,830)
Accrued interest	(990)	5,171
Accrued payroll	160	886
Deferred revenue	(3,254)	8,502
Net cash flows from operating activities	<u>(472,258)</u>	<u>(145,033)</u>
Cash flows from investing activities:		
Decrease in cash restricted for long-term purposes	637,761	36,752
Purchase of property and equipment	(1,284,648)	(2,308,994)
Proceeds from sale of asset	500	-
Certificate of deposit redeemed	-	64,969
Net cash flows from investing activities	<u>(646,387)</u>	<u>(2,207,273)</u>
Cash flows from financing activities:		
Contributions and grants restricted for building acquisition and renovation	1,543,603	1,657,483
Borrowings on new long-term debt	-	150,000
Payments made on contract for deed	(12,616)	(12,861)
Advances on line of credit	361,315	610,429
Payments made on line of credit	(773,857)	-
Net cash flows from financing activities	<u>1,118,445</u>	<u>2,405,051</u>
Net increase (decrease) in cash	(200)	52,745
Cash, beginning of year	<u>73,075</u>	<u>20,330</u>
Cash, end of year	<u>\$ 72,875</u>	<u>\$ 73,075</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 95,710	\$ -
Capitalized interest	7,164	53,850
Property and equipment included in construction payables	-	1,010,822

See accompanying notes to financial statements.

THE STEPPINGSTONE THEATRE
NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2008
(With Comparative Totals for 2007)

1. **ORGANIZATION**

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 –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.

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.

Residencies Program – 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.

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.

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.

THE STEPPINGSTONE THEATRE
NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2008
(With Comparative Totals for 2007)

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

Financial Statement Presentation - Revenues and support are classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

- Unrestricted net assets represent the portion of net assets that are not subject to donor restrictions.
- Temporarily restricted net assets arise from contributions that are restricted by donors for specific purposes or time periods.
- Permanently restricted net assets arise from contributions that are permanently restricted by donors for specific purposes.

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. Funds held at financial institutions exceeded insured limits by \$ - in 2008 and \$510,308 in 2007.

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.

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.

Revenue Recognition – Ticket sales and fees are recognized when earned. Expenses are matched with the related revenues. Advanced ticket sales for 2008-09 productions are recorded as deferred revenue.

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

THE STEPPINGSTONE THEATRE
NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2008
(With Comparative Totals for 2007)

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

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.

Functional Expenses – The Theatre allocates its expenses among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated based on management estimates.

Reclassifications – Reclassifications have been made to the 2007 financial statements to conform to classifications used in 2008. These reclassifications had no affect on net assets or the change in net assets.

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, 2007, from which the summarized information was derived.

3. **CONTRIBUTIONS RECEIVABLE**

The Theatre conducted 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. During the renovation period, all costs incurred on the building, including interest, were capitalized. Depreciation was recorded beginning October 5, 2007 when the building was placed in service. Of the undiscounted contributions receivable, \$257,974 relate to the capital campaign.

Contributions receivable are due as follows:

2009	\$ 162,522
2010	64,702
2011	<u>32,000</u>
	259,224
Less discounts to net present value	<u>(6,056)</u>
	<u><u>\$ 253,168</u></u>

Contributions receivable due after August 31, 2008 have been discounted to their net present value using a rate of 5%. Uncollectible contributions receivable are not expected to be significant.

THE STEPPINGSTONE THEATRE
NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2008
(With Comparative Totals for 2007)

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, 2008 the rate was 6%. 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 building.

5. **LONG-TERM DEBT**

Long-term debt consists of the following:

	2008	2007
Contract for deed	\$ 505,573	\$ 518,189
Saint Paul STAR loan	150,755	150,000
	\$ 656,328	\$ 668,189

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. Secured by the building.

Saint Paul STAR Loan – The Saint Paul STAR loan was entered into on April 26, 2007 for the original amount of \$150,000. An amendment was made to the original terms in December of 2007 deferring principal payments for two years from May 1, 2008 to May 1, 2010 with the maturity date remaining April 1, 2011. The loan bears simple interest at 4% annually. No interest was accrued on the loan from April 26, 2007 to May 1, 2008. Minimum monthly interest only payments of \$250 began on May 1, 2008 and interest will continue to accrue with the balance of unpaid interest added to the loan principal. The loan shall be due immediately upon the earlier of the maturity date or if the Theatre relocates outside the City of Saint Paul. Secured by the building.

Maturities of long-term debt are as follows:

2008	\$ 14,786
2009	542,086
2010	99,456
	656,328
Less current portion	(14,786)
	\$ 641,542

For the years ended August 31, 2008 and 2007, interest expense was \$95,476 and \$53,850, respectively; of which \$7,164 and \$53,850 was capitalized.

THE STEPPINGSTONE THEATRE
NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2008
(With Comparative Totals for 2007)

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes:

	<u>2008</u>	<u>2007</u>
General operating restricted for future years	\$ 71,485	\$ 55,263
Building acquisition and renovation	<u>-</u>	<u>1,077,203</u>
	<u>\$ 71,485</u>	<u>\$ 1,132,466</u>

Temporarily restricted net assets at August 31, 2008 consist of \$60,324 in cash received that was restricted for future periods.

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 the building purchased by the Theatre under the contract for deed and \$24,000 for general operating. Under the grant agreements, the Theatre makes the required construction expenditures and then applies for reimbursement. As of August 31, 2008, the Theatre has expended all of the funds under the agreements except for \$11,161 of the general operating funds which are recorded as temporarily restricted net assets as of August 31, 2008. The Theatre has applied for and received reimbursement for all eligible costs except \$124,000, which is recorded as government grants receivable. Grant revenue of \$80,624 consisted of \$24,000 from STAR.

8. RELATED PARTY TRANSACTIONS

The Theatre entered into transactions with a company whose owner is a member of the Board of Directors. During the fiscal years ended August 31, 2008 and 2007, the Theatre paid \$6,445 and \$65,744, respectively, to the company for services provided to the Theatre.