

THE STEPPINGSTONE THEATRE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

THE STEPPINGSTONE THEATRE

FINANCIAL STATEMENTS

For the Year Ended August 31, 2010

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6



MAHONEY
ULBRICH
CHRISTIANSEN
RUSS P.A.
CERTIFIED PUBLIC ACCOUNTANTS

30 EAST PLATO BOULEVARD SAINT PAUL, MN 55107-1809
TELEPHONE 651.227.6695 FACSIMILE 651.227.9796

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, 2010, 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, 2009, and in our report dated November 13, 2009, 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, 2010, 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 1, 2010

THE STEPPINGSTONE THEATRE
STATEMENT OF FINANCIAL POSITION

August 31, 2010
(With Comparative Totals for 2009)

ASSETS

	2010	2009
Current assets:		
Cash	\$ 73,130	\$ -
Accounts receivable	5,270	3,030
Contributions receivable, current portion	125,225	127,507
Prepaid expenses	22,812	36,496
Total current assets	226,437	167,033
Property and equipment:		
Building acquisition and renovation costs	4,366,769	4,366,769
Office equipment	64,690	63,551
	4,431,459	4,430,320
Less accumulated depreciation	(464,247)	(306,354)
Net property and equipment	3,967,212	4,123,966
Other assets:		
Contributions receivable, noncurrent portion	4,230	55,860
Security deposits	100	100
Finance fees, less accumulated amortization of \$1,308 (2010) and \$482 (2009)	2,823	3,649
Total assets	\$ 4,200,802	\$ 4,350,608

LIABILITIES AND NET ASSETS

Current liabilities:		
Bank overdrafts	\$ -	\$ 5,724
Current portion of long-term debt	15,409	23,163
Accounts payable	15,022	14,973
Security deposit	3,163	2,000
Accrued payroll	9,192	7,391
Deferred revenue	8,670	6,374
Total current liabilities	51,456	59,625
Long-term debt, less current portion	584,025	583,068
Net assets:		
Unrestricted		
Undesignated	83,950	99,458
Net investment in property and equipment	3,367,778	3,517,735
Total unrestricted net assets	3,451,728	3,617,193
Temporarily restricted	113,593	90,722
Total net assets	3,565,321	3,707,915
Total liabilities and net assets	\$ 4,200,802	\$ 4,350,608

See accompanying notes to financial statements.

THE STEPPINGSTONE THEATRE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended August 31, 2010
(With Comparative Totals for 2009)

	2010				Total	2009
	Unrestricted	Property & Equipment	Total Unrestricted	Temporarily Restricted		
Support and revenues:						
Support:						
Corporate and foundation contributions	\$ 222,680	\$ -	\$ 222,680	\$ 37,500	\$ 260,180	\$ 163,518
Contributions from individuals	63,296	-	63,296	-	63,296	53,066
Capital campaign contributions	-	-	-	-	-	161,052
Government grants	37,823	-	37,823	59,476	97,299	63,189
Special event, net of direct benefits of \$516 for 2010 and \$1,783 for 2009	4,404	-	4,404	-	4,404	717
Net assets released from restrictions	74,105	-	74,105	(74,105)	-	-
Total support	402,308	-	402,308	22,871	425,179	441,542
Revenues:						
Residencies	95,872	-	95,872	-	95,872	95,662
Education	167,102	-	167,102	-	167,102	164,329
Productions	206,995	-	206,995	-	206,995	228,940
Rental income	34,675	-	34,675	-	34,675	5,553
Royalty income	-	-	-	-	-	370
Interest and dividend income	217	-	217	-	217	92
Miscellaneous income	7,731	-	7,731	-	7,731	3,202
Total revenues	512,592	-	512,592	-	512,592	498,148
Total support and revenues	914,900	-	914,900	22,871	937,771	939,690
Expenses:						
Program services:						
Education	156,581	31,744	188,325	-	188,325	180,675
Mainstage	444,425	79,360	523,785	-	523,785	496,495
Residencies	123,662	15,872	139,534	-	139,534	160,061
Total program services	724,668	126,976	851,644	-	851,644	837,231
Support services:						
Management and general	128,305	23,808	152,113	-	152,113	155,639
Fundraising	68,672	7,936	76,608	-	76,608	86,537
Capital campaign	-	-	-	-	-	6,610
Total support services	196,977	31,744	228,721	-	228,721	248,786
Total expenses	921,645	158,720	1,080,365	-	1,080,365	1,086,017
Change in net assets	(6,745)	(158,720)	(165,465)	22,871	(142,594)	(146,327)
Net assets, beginning of year	99,458	3,517,735	3,617,193	90,722	3,707,915	3,854,242
Fund transfers	(8,763)	8,763	-	-	-	-
Net assets, end of year	\$ 83,950	\$ 3,367,778	\$ 3,451,728	\$ 113,593	\$ 3,565,321	\$ 3,707,915

See accompanying notes to financial statements

THE STEPPINGSTONE THEATRE

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2010
(With Comparative Totals for 2009)

	2010				Management and General	Fund- raising	Total	2009
	Program			Total				
	Education	Mainstage	Residencies	Total				
Salaries	\$ 34,162	\$ 180,955	\$ 46,554	\$ 261,671	\$ 34,621	\$ 47,479	\$ 343,771	\$ 392,137
Payroll taxes	5,316	9,932	6,505	21,753	1,780	4,197	27,730	33,728
Employee benefits	1,043	3,131	1,058	5,232	-	1,723	6,955	7,417
	<u>40,521</u>	<u>194,018</u>	<u>54,117</u>	<u>288,656</u>	<u>36,401</u>	<u>53,399</u>	<u>378,456</u>	<u>433,282</u>
Telephone	-	-	-	-	6,010	-	6,010	5,354
Office rent	1,545	-	-	1,545	-	-	1,545	2,500
Repairs and maintenance	2,423	6,057	1,211	9,691	1,817	606	12,114	1,652
Office supplies and expense	3,481	10,911	1,006	15,399	15,207	1,040	31,646	35,297
Advertising/brochures	6,881	34,618	778	42,277	33,233	1,811	77,320	84,034
Promotion	750	3,494	50	4,294	3,356	260	7,910	5,848
Postage	1,982	14,705	-	16,686	2,562	154	19,402	21,660
Professional services	-	-	-	-	12,950	-	12,950	12,950
Insurance	5,071	12,676	2,535	20,282	3,803	1,268	25,353	22,776
Travel	447	23,653	1,095	25,195	806	-	26,001	6,641
Consultants	75,419	91,306	55,783	222,508	1,689	5,710	229,906	213,589
Production costs	3,239	18,676	-	21,915	-	750	22,665	19,479
Depreciation and amortization	31,744	79,360	15,872	126,976	23,808	7,936	158,720	158,538
Miscellaneous	1,267	423	310	2,000	305	801	3,108	4,375
Interest expense	6,975	17,437	3,487	27,899	5,231	1,744	34,874	24,437
Utilities	<u>6,580</u>	<u>16,451</u>	<u>3,290</u>	<u>26,321</u>	<u>4,935</u>	<u>1,645</u>	<u>32,901</u>	<u>35,388</u>
Subtotal	188,325	523,785	139,534	851,644	152,113	77,124	1,080,881	1,087,800
Less: direct donor benefits deducted from revenue	-	-	-	-	-	(516)	(516)	(1,783)
	<u>\$ 188,325</u>	<u>\$ 523,785</u>	<u>\$ 139,534</u>	<u>\$ 851,644</u>	<u>\$ 152,113</u>	<u>\$ 76,608</u>	<u>\$ 1,080,365</u>	<u>\$ 1,086,017</u>

See accompanying notes to financial statements.

THE STEPPINGSTONE THEATRE

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2010
(With Comparative Totals for 2009)

Increase (decrease) in cash

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ (142,594)	\$ (146,327)
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation and amortization	158,720	158,538
Contributions restricted for long-term purposes	-	(161,052)
Accrued interest added to principal	1,850	3,878
Changes in net operating assets and liabilities:		
Accounts receivable	(2,240)	11,389
Contributions receivable	53,912	(89,472)
Prepaid expenses	13,684	5,562
Accounts payable	49	(18,986)
Security deposit	1,163	2,000
Accrued interest	-	(4,181)
Accrued payroll	1,801	794
Deferred revenue	2,296	(4,075)
Net cash flows from operating activities	<u>88,641</u>	<u>(241,932)</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(1,140)</u>	<u>-</u>
Net cash flows from investing activities	<u>(1,140)</u>	<u>-</u>
Cash flows from financing activities:		
Contributions and grants restricted for building acquisition and renovation	-	365,350
Payment of finance fees	-	(4,130)
Payments made on mortgage note	(8,647)	-
Payments made on line of credit	<u>-</u>	<u>(197,887)</u>
Net cash flows from financing activities	<u>(8,647)</u>	<u>163,333</u>
Net increase (decrease) in cash	78,854	(78,599)
Cash (overdraft), beginning of year	<u>(5,724)</u>	<u>72,875</u>
Cash (overdraft), end of year	<u>\$ 73,130</u>	<u>\$ (5,724)</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 34,874	\$ 20,558
Non-cash transactions:		
Pledge fulfilled by reducing contract for deed	-	53,975
Transfer of contract for deed to mortgage payable	-	451,598

See accompanying notes to financial statements.

THE STEPPINGSTONE THEATRE

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010
(With Comparative Totals for 2009)

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 – 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 – 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.

(Continued)

THE STEPPINGSTONE THEATRE

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010
(With Comparative Totals for 2009)

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 with restrictions by donors that do not expire and that allow, in certain cases, only the income earned thereon to be expended.

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 \$250,000. At times the amount on deposit may exceed the insured limit of the institutions and expose 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.

Accounts and Contribution Receivable – Accounts and contributions receivable are stated at net realizable value. The accounts and contributions receivable balances represent amounts considered collectible at year end. No allowance for bad debts is deemed necessary.

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. 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.

Finance Fees - Finance fees are amortized over the term of the related debt using the straight-line method.

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 criteria described.

(Continued)

THE STEPPINGSTONE THEATRE

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010
(With Comparative Totals for 2009)

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

Revenue Recognition – Ticket sales and fees are recognized when earned. Expenses are matched with the related revenues. Advance ticket sales for 2010-11 productions are recorded as deferred revenue.

Government Grants – The Theatre records government grants from the City of St. Paul STAR grant and the NEA grant as exchange transactions. Revenue is recognized when expenses reimbursable under grant agreements have been incurred by the Theatre.

Advertising Costs - Advertising costs are charged to expense during the year in which they are incurred.

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 were made to the 2009 financial statements to be consistent with the current year financial statements. These reclassifications did not affect net assets or the change in net assets.

Income Taxes – The Theatre is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable Minnesota Statutes, except to the extent it has taxable income from businesses that are not related to its exempt purpose. Management believes the Theatre did not have any unrelated business income in 2010.

The Theatre is not currently under examination by any taxing jurisdiction. Federal and state tax authorities generally have the right to examine returns for a period of three years after they are filed.

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, 2009, from which the summarized information was derived.

(Continued)

THE STEPPINGSTONE THEATRE
NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010
(With Comparative Totals for 2009)

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.

Contributions receivable are due as follows:

	Capital campaign	Other
2011	\$ 14,582	\$ 110,643
2012	1,280	2,950
	\$ 15,862	\$ 113,593

4. **LINES OF CREDIT**

The Theatre has entered into a line of credit agreement with Park Midway bank, with a minimum interest rate at 6%. The line provides for maximum borrowing of up to \$50,000, with interest at .5 percent over the index. The line expires on December 2, 2010.

The Theatre also has a line of credit agreement with Nonprofits Assistance Fund, which provides for a maximum borrowing of up to \$50,000 with an interest rate of 8.5%. The line expires November 30, 2010. Secured by bank accounts, inventory, equipment, investment property and general intangibles.

At August 31, 2010 no amounts have been advanced on either line of credit.

5. **LONG-TERM DEBT**

Long-term debt consists of the following:

	2010	2009
Park Midway mortgage	\$ 442,950	\$ 451,598
Saint Paul STAR loan	156,483	154,633
	\$ 599,434	\$ 606,231

Park Midway Bank Mortgage – Park Midway Bank assumed the mortgage related to the contract for deed on January 27, 2009 in the amount of \$451,598. The mortgage has an interest rate of 6.5% and requires twelve monthly interest only payments beginning March 1, 2009 followed by 47 monthly payments of \$3,685 until February 1, 2014, at which time the remaining balance is due. Secured by the building.

(Continued)

THE STEPPINGSTONE THEATRE

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010
(With Comparative Totals for 2009)

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

Saint Paul STAR Loan – The Saint Paul STAR loan was entered into on April 26, 2007 for the original amount of \$150,000. A second amendment was made to the original terms in May 2010. As amended, the loan bears simple interest at 4% annually. No interest was paid on the loan from April 26, 2007 to May 1, 2008. Minimum monthly interest only payments of \$250 began on May 1, 2008. At May 1, 2010 monthly interest payments were increased to \$520. Unpaid accrued interest is added to principal. Monthly payments of \$1,579 will be due starting May 1, 2012. The loan shall be due immediately upon the earlier of May 1, 2013 or if the Theatre relocates outside the City of Saint Paul. Secured by the building.

Maturities of long-term debt are as follows:

2011	\$ 15,409
2012	20,560
2013	169,869
2014	393,596
	<u>599,434</u>
Less current portion	<u>(15,409)</u>
	<u>\$ 584,025</u>

6. **NET ASSETS**

The net investment in property and equipment represents net property and equipment reduced by related outstanding debt.

Temporarily restricted net assets are time restricted for future years.

7. **LEASE AGREEMENT**

Beginning September 13, 2009, the Theatre leases some of its space to a church. The tenant paid a security deposit of \$2,000 and rent in the total amount of \$15,100 in nine monthly installments beginning September 1, 2009. This lease was renewed June 13, 2010 for one year. Total rent of \$26,715 is due in twelve monthly installments through May 29, 2011.

(Continued)

THE STEPPINGSTONE THEATRE
NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2010
(With Comparative Totals for 2009)

8. **CONCENTRATION**

In 2010 approximately 10% of the Theatre's support and revenue were provided by one donor.

Approximately 21% of the Theatre's support and revenue were provided by one donor in 2009. These funds were for the capital campaign.

9. **SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 1, 2010, the date on which the financial statements were available for issue.