Main Street Theater

Financial Statements

For the Fiscal Years Ended August 31, 2010 and 2009

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Briggs & Veselka Co.
A PROFESSIONAL CORPORATION
Certified Public Accountants and Business Advisors

To the Board of Directors
Main Street Theater
Houston, Texas

Independent Auditors' Report

We have audited the accompanying statements of financial position of Main Street Theater (a Texas nonprofit organization) as of August 31, 2010 and 2009, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Organization's management. 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 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 audits provide 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 Main Street Theater as of August 31, 2010 and 2009, and the changes in its net assets and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Briggs & Veselka Co.

Briggs & Veselka Co.
A Professional Corporation
Certified Public Accountants

January 6, 2011

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MAIN STREET THEATER
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2010 AND 2009

ASSETS	**2010**	2009
CURRENT ASSETS		
Cash and cash equivalents	**$ 33,559**	$ 5,705
Pledges receivable	**525,000**	98,667
Prepaid expenses	**34,235**	25,313
TOTAL CURRENT ASSETS	**592,794**	129,685
PROPERTY AND EQUIPMENT, at cost		
Furniture, fixtures, and equipment	**33,984**	26,680
Leasehold improvements	**232,746**	232,746
	266,730	259,426
Less: accumulated depreciation	**(198,506)**	(184,491)
NET PROPERTY AND EQUIPMENT	**68,224**	74,935
OTHER ASSETS		
Investments, at fair value	**33,334**	32,617
Deposits	**7,606**	5,679
TOTAL OTHER ASSETS	**40,940**	38,296
TOTAL ASSETS	**$ 701,958**	$ 242,916

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS		**2010**		2009
CURRENT LIABILITIES				
Accounts payable	**$**	**73,444**	$	37,980
Deferred revenue – deposits/prepayments		**92,991**		77,986
Deferred revenue – tuition		**22,463**		37,428
Line of credit		**20,000**		-
Current portion of capital lease obligations		**2,435**		-
TOTAL CURRENT LIABILITIES		**211,333**		153,394
LONG-TERM LIABILITIES				
Capital lease obligations, net of current portion		**4,057**		-
TOTAL LONG-TERM LIABILITIES		**4,057**		-
TOTAL LIABILITIES		**215,390**		153,394
NET ASSETS (DEFICIT)				
Unrestricted		**(104,212)**		59,522
Temporarily restricted		**560,780**		-
Permanently restricted		**30,000**		30,000
TOTAL NET ASSETS		**486,568**		89,522
TOTAL LIABILITIES AND NET ASSETS	**$**	**701,958**	$	242,916

The accompanying notes are an integral part of these financial statements.

MAIN STREET THEATER
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
PUBLIC SUPPORT AND REVENUES				
Contributions and donations	$ 260,473	$ 10,000	$ -	$ 270,473
Capital campaign contributions	-	550,780	-	550,780
Government grants	58,900	-	-	58,900
Special events	65,900	-	-	65,900
Less: costs of direct benefit to donors	(6,962)	-	-	(6,962)
Admissions	711,008	-	-	711,008
Workshop and other program service fees	386,791	-	-	386,791
Investment gain	717	-	-	717
Other revenues	10,036	-	-	10,036
TOTAL PUBLIC SUPPORT AND REVENUES	1,486,863	560,780	-	2,047,643
RELEASES FROM TEMPORARY RESTRICTIONS	-	-	-	-
TOTAL PUBLIC SUPPORT, REVENUES AND RELEASES FROM TEMPORARY RESTRICTIONS	1,486,863	560,780	-	2,047,643
EXPENSES				
Program services	1,468,341	-	-	1,468,341
Management and general	104,833	-	-	104,833
Fund-raising and special events	77,423	-	-	77,423
TOTAL EXPENSES	1,650,597	-	-	1,650,597
INCREASE (DECREASE) IN NET ASSETS	(163,734)	560,780	-	397,046
NET ASSETS BEGINNING OF YEAR	59,522	-	30,000	89,522
NET ASSETS (DEFICIT), END OF YEAR	$ (104,212)	$ 560,780	$ 30,000	$ 486,568

The accompanying notes are an integral part of these financial statements.

MAIN STREET THEATER
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
FOR THE FISCAL YEAR ENDED AUGUST 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
PUBLIC SUPPORT AND REVENUES				
Contributions and donations	$ 457,159	$ -	$ -	$ 457,159
Government grants	68,495	-	-	68,495
Special events	66,910	-	-	66,910
Less: costs of direct benefit to donors	(10,933)			(10,933)
Admissions	594,095	-	-	594,095
Workshop and other program service fees	371,211	-	-	371,211
Investment loss	(1,383)	(2,644)	-	(4,027)
Other revenues	19,930	-	-	19,930
TOTAL PUBLIC SUPPORT AND REVENUES	1,565,484	(2,644)	-	1,562,840
RELEASES FROM TEMPORARY RESTRICTIONS	25,000	(25,000)	-	-
TOTAL PUBLIC SUPPORT, REVENUES AND RELEASES FROM TEMPORARY RESTRICTIONS	1,590,484	(27,644)	-	1,562,840
EXPENSES				
Program services	1,283,542	-	-	1,283,542
Management and general	213,410	-	-	213,410
Fund-raising and special events	61,218	-	-	61,218
TOTAL EXPENSES	1,558,170	-	-	1,558,170
INCREASE (DECREASE) IN NET ASSETS	32,314	(27,644)	-	4,670
NET ASSETS BEGINNING OF YEAR	27,208	27,644	30,000	84,852
NET ASSETS, END OF YEAR	$ 59,522	$ -	$ 30,000	$ 89,522

The accompanying notes are an integral part of these financial statements.

MAIN STREET THEATER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2010

	Program Services	Management and General	Fund-Raising and Special Events	Total Expenses
EXPENSES				
Salaries and benefits	$ 416,157	$ 25,500	$ 33,840	$ 475,497
Payroll taxes	34,135	2,409	3,614	40,158
Contract labor	488,377	-	-	488,377
Accounting	-	13,933	-	13,933
Publicity	43,711	-	309	44,020
Royalties	63,303	-	-	63,303
Production expenses	73,209	-	-	73,209
Postage	27,093	1,992	3,153	32,238
Printing	40,747	123	2,138	43,008
Repairs	9,455	1,995	-	11,450
Utilities	18,596	2,100	-	20,696
Rent	207,537	10,800	-	218,337
Equipment rental	-	6,117	-	6,117
Telephone	10,507	1,200	-	11,707
Supplies	3,310	6,263	952	10,525
Insurance	13,405	4,404	-	17,809
Depreciation	14,015	-	-	14,015
Bank charges	-	704	-	704
Miscellaneous	4,784	9,488	782	15,054
Credit card fees	-	17,805	-	17,805
Strategic planning	-	-	17,174	17,174
Special events	-	-	15,461	15,461
TOTAL EXPENSES	$ 1,468,341	$ 104,833	$ 77,423	$ 1,650,597

The accompanying notes are an integral part of these financial statements.

MAIN STREET THEATER
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
FOR THE FISCAL YEAR ENDED AUGUST 31, 2009

	Program Services	Management and General	Fund-Raising and Special Events	Total Expenses
EXPENSES				
Salaries and benefits	$ 360,134	$ 67,511	$ 36,000	$ 463,645
Payroll taxes	29,962	5,119	2,754	37,835
Contract labor	423,000	-	-	423,000
Accounting	-	12,375	-	12,375
Publicity	31,669	-	187	31,856
Royalties	54,813	-	-	54,813
Production expenses	60,274	-	-	60,274
Postage	23,340	2,118	3,117	28,575
Printing	36,909	427	2,727	40,063
Repairs	8,830	1,995	-	10,825
Utilities	20,487	2,276	-	22,763
Rent	188,831	18,703	-	207,534
Equipment rental	-	5,537	-	5,537
Telephone	9,887	1,098	-	10,985
Supplies	3,440	4,991	-	8,431
Insurance	16,694	4,173	-	20,867
Depreciation	14,609	-	-	14,609
Bank charges	-	-	-	-
Miscellaneous	663	10,220	574	11,457
Credit card fees	-	22,214	-	22,214
Strategic planning	-	54,653	-	54,653
Special events	-	-	15,859	15,859
TOTAL EXPENSES	$ 1,283,542	$ 213,410	$ 61,218	$ 1,558,170

The accompanying notes are an integral part of these financial statements.

MAIN STREET THEATER
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED AUGUST 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	**$ 397,046**	$ 4,670
ADJUSTMENTS TO RECONCILE INCREASE (DECREASE) IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Depreciation	**14,015**	14,609
Loss on disposal of property and equipment	**-**	53
Investment (gain) loss on investments	**(717)**	5,072
Reinvested dividends	**-**	(5,045)
(Increase) decrease in assets:		
Pledges receivable	**(426,333)**	(59,762)
Prepaid expenses	**(8,922)**	(198)
Deposits	**(1,927)**	(1,000)
Increase (decrease) in liabilities:		
Accounts payable	**35,464**	27,570
Deferred revenue – deposits/prepayments	**15,005**	(3,395)
Deferred revenue – tuition	**(14,965)**	5,485
TOTAL ADJUSTMENTS	**(388,380)**	(16,611)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**8,666**	(11,941)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	**-**	(7,529)
NET CASH USED BY INVESTING ACTIVITIES	**-**	(7,529)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on short-term debt	**-**	(15,000)
Proceeds from loans	**20,000**	-
Payments on capital lease obligations	**(812)**	-
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	**19,188**	(15,000)

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE FISCAL YEARS ENDED AUGUST 31, 2010 AND 2009

	2010	2009
NET INCREASE (DECREASE) IN CASH AND AND CASH EQUIVALENTS	**27,854**	(34,470)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**5,705**	40,175
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 33,559**	$ 5,705
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	**$ 1,616**	$ 1,247
NONCASH INVESTING TRANSACTIONS		
Disposal of Property and Equipment	**$ -**	$ 10,753

The accompanying notes are an integral part of these financial statements.

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Main Street Theater (the "Organization") is a nonprofit theatrical organization located in Houston, Texas. Main Street Theater was organized in 1975 to provide a wide variety of dramatic literature and theatrical innovation. In addition, the Organization provides an opportunity for artists living in the Houston area to showcase and develop their talents. The Organization's primary sources of revenue are from program service fees (admissions and workshop fees), contributions and grants, and special events.

Summary of Significant Accounting Policies

A. Financial Statement Presentation

The Organization presents its financial statements under accounting guidance for *Not for Profit Entities*. Under this guidance, the Organization is required to report information regarding its financial position and activities according to three classes of net assets as follows:

- Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions.
- Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.
- Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently on behalf of the Organization.

B. Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three (3) months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statements of cash flows exclude restricted cash and cash equivalents, if any.

C. Allowance for Doubtful Accounts

The Organization believes all balances included in pledges receivable are fully collectible. As such, no provision has been made for bad debts.

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of Significant Accounting Policies (Continued)

D. Property and Equipment

Property and equipment is recorded at cost or at estimated value at the date of gift, if donated. Property and equipment additions equal to or in excess of $1,000 are capitalized. Depreciation is computed on a straight-line basis over the estimated useful life of the assets. Leasehold improvements are being amortized over the shorter of the lease term or useful life.

E. Investments and Investment Return

Investments consist primarily of money market and mutual funds and are recorded at fair value. Investment return includes interest income and unrealized gains and losses on investments.

F. Deferred Revenues

Advance ticket sales for the following fiscal year are recognized as deferred revenues at the time of collection. The portion of the sales that relate to each production are recognized as revenue in the period the production is presented. If scheduled productions are cancelled and not replaced by another production, the advance ticket sales related to the production may be subject to refund to the ticket holders.

Advance class registrations are recognized as program deposits at the time of collection. These deposits are recognized as revenues in the period the class is conducted.

G. Contributions

In accordance with accounting guidance for *Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of donor restrictions. Contributions are recognized as an increase to unrestricted net assets when the donor makes a promise to give to the Organization that is, in substance, unconditional. Support that is restricted by the donor is reported as an increase in unrestricted assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as temporarily restricted or permanently restricted support when received. Temporarily restricted support is reclassified to unrestricted net assets upon expiration of the restriction.

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of Significant Accounting Policies (Continued)

H. In-Kind Support and Donated Services

The Organization records various types of in-kind support including property and equipment. Contributions of tangible assets are recognized at fair market value when received. The Organization also receives donated professional services and donated time to help with fundraising, program activities, special projects, and clerical and office work.

Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically be purchased if not provided by donations.

Amounts for these services have not been recognized in the accompanying statements of activities and changes in net assets because the criteria for recognition have not been satisfied.

I. Allocation of Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

J. Advertising

Advertising costs are expensed as incurred. For the fiscal years ended August 31, 2010 and 2009, advertising costs were $52,461 and $30,270, respectively.

K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of Significant Accounting Policies (Continued)

L. Income Tax Status

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes is made in these financial statements.

M. Fair Value Measurements

Under accounting guidance for *Fair Value Measurements*, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance includes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 – Inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 – Significant unobservable inputs that are supported by little or no market activity.

At August 31, 2010 and 2009, the Organization has Level 1 and Level 2 investments which are measured at fair value on a recurring basis (*see Note 2*).

N. Reclassifications

Certain reclassifications have been made to the prior year to conform to the current year presentation.

NOTE 2 –INVESTMENTS

As described in *Note 1*, the Organization measures its investments at fair value. Investments include a certificate of deposit as well as investments that are restricted for the Saunders Endowment Fund as described in *Note 5.* Fair value of assets measured on a recurring basis at August 31, 2010 and 2009 are summarized below:

	August 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Money market funds for long-term investment	**$ 7,473**	**$ -**	**$ -**	**$ 7,473**
Certificate of deposit	**4,000**	**-**	**-**	**4,000**
Mutual funds – corporate stocks	**-**	**21,861**	**-**	**21,861**
TOTALS	**$ 11,473**	**$ 21,861**	**$ -**	**$ 33,334**

	August 31, 2009			
	Level 1	Level 2	Level 3	Fair Value
Money market funds for long-term investment	$ 7,324	$ -	$ -	7,324
Certificate of deposit	4,000	-	-	4,000
Mutual funds – corporate stocks	-	21,293	-	21,293
TOTALS	$ 11,324	$ 21,293	$ -	$ 32,617

In general, and where applicable, the Organization uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 financial assets which consist of money market funds and certificates of deposit. If quoted prices in active markets for identical assets are not available to determine fair value, then quoted prices for similar assets or inputs other than the quoted prices that are observable either directly or indirectly are used. These investments are included in Level 2 and consist of mutual funds.

NOTE 2 –INVESTMENTS (CONTINUED)

Unrealized appreciation of investments at August 31, 2010 and 2009 are summarized below:

	2010		
	Cost	Fair Value	Unrealized Appreciation
Money market funds for long-term investment	**$ 7,324**	**$ 7,473**	**$ 149**
Certificate of deposit	**4,000**	**4,000**	**-**
Mutual funds – corporate stocks	**20,000**	**21,861**	**1,861**
TOTALS	**$ 31,324**	**$ 33,334**	**$ 2,010**

	2009		
	Cost	Fair Value	Unrealized Appreciation
Money market funds for long-term investment	$ 7,324	$ 7,324	$ -
Certificate of deposit	4,000	$ 4,000	-
Mutual funds – corporate stocks	20,000	21,293	1,293
TOTALS	$ 31,324	$ 32,617	$ 1,293

The following schedule summarizes the investment return which is reported with investment return (loss) in the statement of activities and changes in net assets for the fiscal years ended August 31, 2010 and 2009:

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	**$ -**	**$ -**	**$ -**	**$ -**
Unrealized gains	**717**	**-**	**-**	**717**
TOTALS	**$ 717**	**$ -**	**$ -**	**$ 717**

NOTE 2 –INVESTMENTS (CONTINUED)

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	$ -	$ 1,045	$ -	$ 1,045
Unrealized losses	(1,383)	(3,689)	-	(5,072)
TOTALS	$ (1,383)	$ (2,644)	$ -	$ (4,027)

NOTE 3 – REVOLVING LINE OF CREDIT

The Organization has available a revolving line of credit with a bank for the principal amount of $50,000 which is used for seasonal working capital purposes. The line of credit will continue until termination of the account, and the obligation will remain in effect until the Organization has paid all amounts due. The Board of Directors requires that the line be paid down to a $-0- balance for at least four weeks each year. Borrowings under the line of credit bear interest at the current Index plus 5.5% (8.75% at August 31, 2010). The credit line is not secured by the Organization's assets. The outstanding line of credit was $20,000 and $-0- at August 31, 2010, and August 31, 2009, respectively. There was no interest incurred on the line of credit during the 2010 fiscal year, however, $1,616 and $1,247 in interest expense was incurred on other payables for the 2010 and 2009 fiscal years ended, respectively.

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2010, the Organization had $560,780 in temporarily restricted net assets. Of total temporarily restricted net assets, $10,000 relates to general operations and $550,780 relates to capital campaign contributions and pledges receivable for the purchase of a building (*see Note 9*).

NOTE 5 – PERMANENTLY RESTRICTED NET ASSETS – ENDOWMENT FUNDS

The Organization received permanently restricted contributions as follows for the Saunders Endowment Fund:

November 1998	$ 10,000
December 2000	10,000
November 2001	10,000
TOTAL PERMANENTLY RESTRICTED NET ASSETS AT AUGUST 31, 2010 AND 2009	$ 30,000

NOTE 5 – PERMANENTLY RESTRICTED NET ASSETS – ENDOWMENT FUNDS (CONTINUED)

The Saunders Endowment Fund is on deposit with a financial services firm, in Houston Texas. They are invested in a money market account and a mutual fund account (*see Note 2*). As required by GAAP, net assets associated with the Saunders Endowment Fund are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purpose of the Organization and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Organization; and
7. The investment policies of the Organization.

Endowment net assets composition by type of fund as of August 31, 2010 and 2009 consist of the following:

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted endowment funds	**$ (666)**	**$ -**	**$ 30,000**	**$ 29,334**
Board-Designated endowment funds	**-**	**-**	**-**	**-**
TOTAL FUNDS	**$ (666)**	**$ -**	**$ 30,000**	**$ 29,334**

NOTE 5 – PERMANENTLY RESTRICTED NET ASSETS – ENDOWMENT FUNDS (CONTINUED)

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted endowment funds	$ (1,383)	$ -	$ 30,000	$ 28,617
Board-Designated endowment funds	-	-	-	-
TOTAL FUNDS	$ (1,383)	$ -	$ 30,000	$ 28,617

Changes in endowment net assets for the fiscal years ended August 31, 2010 and 2009 include:

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ENDOWMENT NET ASSETS BEGINNING OF YEAR	$ (1,383)	$ -	$ 30,000	$ 28,617
Investment return:				
Investment income	-	-	-	-
Net appreciation (realized and unrealized)	717	-	-	717
Total Investment Return	717	-	-	717
ENDOWMENT NET ASSETS, END OF YEAR	$ (666)	$ -	$ 30,000	$ 29,334

NOTE 5 – PERMANENTLY RESTRICTED NET ASSETS – ENDOWMENT FUNDS (CONTINUED)

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ENDOWMENT NET ASSETS, BEGINNING OF YEAR	$ -	$ 2,644	$ 30,000	$ 32,644
Investment Return (Loss):				
Investment income	-	1,045	-	1,045
Net depreciation (realized and unrealized)	-	(5,072)	-	(5,072)
Total Investment Return (Loss)	-	(4,027)	-	(4,027)
Deficiency in donor restricted endowment funds	(1,383)	1,383	-	-
ENDOWMENT NET ASSETS, END OF YEAR	$ (1,383)	$ -	$ 30,000	$ 28,617

NOTE 5 – PERMANENTLY RESTRICTED NET ASSETS – ENDOWMENT FUNDS (CONTINUED)

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowments only):

	2010	2009
Permanently Restricted Net Assets		
(1) The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA	**$ 30,000**	$ 30,000
TOTAL ENDOWMENT FUNDS CLASSIFIED AS PERMANENTLY RESTRICTED NET ASSETS	**$ 30,000**	$ 30,000

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $666 and $1,383 as of August 31, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

NOTE 5 – PERMANENTLY RESTRICTED NET ASSETS – ENDOWMENT FUNDS (CONTINUED)

Return Objectives and Risk Parameters (Continued)

The Organization expects its endowment funds, over time, to provide an average rate of return of approximately six percent (6%) to eight percent (8%) annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating funds for distribution only when the donor-restricted endowment exceeds the original endowment by ten percent (10%). In establishing this policy, the Organization considered the long-term expected return on its endowment. This is consistent with the Organization's objectives to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 6 – LEASES

The Organization leases theaters and office space under various noncancelable operating lease agreements. One theater lease requires monthly payments of $11,326 through December 2012, and an office lease requires monthly payments of $2,470 through July 2012. Additionally, the Organization leases month-to-month office space for $2,050 a month. The Organization also leases office equipment under various noncancelable operating lease agreements. The following is a schedule of future minimum rental payments required under these operating leases that have initial or remaining noncancelable lease terms in excess of one (1) year as of August 31, 2010:

For the Fiscal Year Ending August 31,	Amount
2011	$ 167,064
2012	164,594
2013	45,808
TOTAL	$ 377,466

NOTE 6 – LEASES (CONTINUED)

The Organization recognized $224,454 and $213,071 in rental expense for the fiscal years ended August 31, 2010 and 2009, respectively.

The Organization leases a copier under a capital lease. The lease agreement contains a bargain purchase option at the end of the lease term. The following is an analysis of the leased asset included in property and equipment as of August 31, 2010:

	2010
Office and computer equipment	**$ 7,304**
Less: accumulated depreciation	**(812)**
	$ 6,492

Amortization of assets held under capital leases is included with depreciation expense.

The following is a schedule of future minimum payments required under the capital lease as of August 31, 2010:

For the Fiscal Year Ending August 31,	Amount
2011	$ 2,777
2012	2,777
2013	1,851
Total Future Minimum Lease Payments	7,405
Less: Portion representing interest	(913)
Present Value of Future Minimum Lease Payments	6,492
Less: Current portion of capital lease obligations	(2,435)
Capital lease obligations, net of current portion	$ 4,057

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Grants require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to grantors. Although that is a possibility, the Board deems the contingency remote since, by accepting the gifts and their terms, it has accommodated the objectives of the Organization to the provisions of the gift.

NOTE 8 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of temporary cash investments, money market and mutual funds, and trade accounts receivable. The Organization maintains its cash balances at a bank and its money market and mutual funds are with a financial services firm. Cash balances and money market funds are insured by the Federal Deposit Insurance Corporation ("FDIC"). Effective July 21, 2010, the FDIC permanently increased the coverage limit per depositor, per insured depository institution, for interest-bearing accounts to $250,000. Effective October 2008, the federally insured limit was increased from $100,000 to an unlimited guarantee for noninterest-bearing accounts through December 31, 2009. The Organization's financial institution elected to extend the unlimited guarantee through December 31, 2010. The Organization had no uninsured deposited balances at August 31, 2010 and 2009, respectively. The mutual funds, with a balance of $21,861 and $21,293 at August 31, 2010 and 2009, respectively, are not insured.

Due to the level of risk associated with the mutual fund investments, it is at least reasonably possible that changes in the value of mutual fund investments will occur in the near term, and such changes could materially affect the amounts reported in the Organization's financial statements.

Additionally, there is a concentration risk with respect to the Organization's pledges receivable at August 31, 2010 and 2009, as ninety-five percent (95%) of the 2010 balance of $525,000, and seventy-six percent (76%) of the 2009 balance of $98,667, respectively, comes from one grantor.

NOTE 9 – CAPITAL CAMPAIGN

In fiscal year 2008, the Organization's Board of Directors approved a capital campaign to fund the purchase of the building that they are currently leasing month-to-month as described in *Note 6*. The goal of the capital campaign is to raise $3,500,000 by August 31, 2013. Through August 31, 2010, the Organization has raised over $550,000 towards the campaign. Management expects that the campaign will be successful and no capital contribution donations will be returned to donors. The Organization acquired the services of a capital campaign consultant to assist with raising the funds, and expenses associated with the capital campaign were $17,174 and $54,653 for the years ended August 31, 2010, and 2009, respectively.

NOTE 9 – CAPITAL CAMPAIGN (CONTINUED)

The Organization received a conditional promise to give during the fiscal year ended August 31, 2010 in the amount of $250,000. This amount is contingent upon the Organization raising the balance of funds needed to purchase the building. The conditional promise to give is not recorded in the statement of financial position and will not be recognized until the conditions in which they depend are substantially met.

NOTE 10 – ECONOMIC CONDITIONS

As shown in the accompanying financial statements, the Organization has incurred a deficit in unrestricted net assets for the fiscal year ended August 31, 2010. The economic downturn affecting nonprofit organizations in the greater Houston area and nationally has impacted the Organization's individual donations. Furthermore, some foundation grants were restricted for the capital campaign (*see Note 9*). The Organization projects that it will have sufficient resources and cash to withstand the current economic downturn and is responding to the challenges by increasing board membership to diversify foundation and corporate support and improve special event income, and continuing to closely monitor and reduce operating costs. Additionally, the Organization intends to utilize the available line of credit (*see Note 3*) as necessary.

NOTE 11 – SUBSEQUENT EVENTS

The Organization withdrew an additional $20,000 on the line of credit in September of 2010.

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through January 6, 2011, the date the financial statements were available to be issued.