Main Street Theater

Financial Statements

For the Fiscal Years Ended August 31, 2012 and 2011

CONTENTS

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Main Street Theater
Houston, Texas

We have audited the accompanying statements of financial position of Main Street Theater (a Texas nonprofit organization) as of August 31, 2012 and 2011, 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, 2012 and 2011, 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.
Houston, Texas

December 28, 2012

HOUSTON OFFICE 713.667.9147 Tel. ■ 713.667.1697 Fax
Nine Greenway Plaza, Suite 1700 ■ Houston, Texas 77046 ■ www.bvccpa.com

Member of the Center for Public Company Audit Firms of the American Institute of Certified Public Accountants

Independent Member BKR INTERNATIONAL

MAIN STREET THEATER
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2012 AND 2011

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	**$ 33,732**	$ 40,245
Restricted cash	**35,588**	44,443
Restricted grants receivable	**511,182**	508,000
Prepaid expenses	**48,576**	44,974
Total current assets	**629,078**	637,662
Property and equipment, net	**93,949**	56,488
Investments, at fair value	**36,976**	36,956
Deposits	**12,969**	11,605
TOTAL ASSETS	**$ 772,972**	$ 742,711
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	**$ 35,090**	$ 32,227
Revolving line of credit	**-**	49,295
Deferred revenue – deposits/prepayments	**75,521**	92,909
Deferred revenue – tuition	**29,031**	41,634
Current portion of capital lease obligations	**1,792**	2,500
Total current liabilities	**141,434**	218,565
Long-term liabilities		
Capital lease obligations, net of current portion	**-**	1,792
Total long-term liabilities	**-**	1,792
Total liabilities	**141,434**	220,357
Net assets (deficit)		
Unrestricted	**(17,732)**	(125,856)
Temporarily restricted	**619,270**	618,210
Permanently restricted	**30,000**	30,000
Total net assets	**631,538**	522,354
TOTAL LIABILITIES AND NET ASSETS	**$ 772,972**	$ 742,711

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, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
Public support and revenues				
Contributions and donations	$ 351,788	$ 2,000	$ -	$ 353,788
Capital campaign contributions	-	-	-	-
Government grants	80,832	-	-	80,832
Special events	93,547	-	-	93,547
Less: costs of direct benefit to donors	(9,100)	-	-	(9,100)
Admissions	975,488	-	-	975,488
Workshop and other program service fees	447,734	-	-	447,734
Investment gain (unrealized)	4,020	-	-	4,020
Other revenues	44,205	-	-	44,205
Total public support and revenues	1,988,514	2,000	-	1,990,514
Releases from temporary restrictions	940	(940)	-	-
Total public support, revenues and releases from temporary restrictions	1,989,454	1,060	-	1,990,514
Expenses				
Program services	1,693,542	-	-	1,693,542
Management and general	122,994	-	-	122,994
Fund-raising and special events	64,794	-	-	64,794
Total expenses	1,881,330	-	-	1,881,330
Change in net assets	108,124	1,060	-	109,184
Net assets, beginning of year	(125,856)	618,210	30,000	522,354
NET ASSETS (DEFICIT), END OF YEAR	$ (17,732)	$ 619,270	$ 30,000	$ 631,538

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, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
Public support and revenues				
Contributions and donations	$ 304,035	$ 15,000	$ -	$ 319,035
Capital campaign contributions	-	52,430	-	52,430
Government grants	74,400	-	-	74,400
Special events	49,482	-	-	49,482
Less: costs of direct benefit to donors	(6,800)			(6,800)
Admissions	757,599	-	-	757,599
Workshop and other program service fees	380,709	-	-	380,709
Investment gain (unrealized)	3,622	-	-	3,622
Other revenues	10,921	-	-	10,921
Total public support and revenues	1,573,968	67,430	-	1,641,398
Releases from temporary restrictions	10,000	(10,000)	-	-
Total public support, revenues and releases from temporary restrictions	1,583,968	57,430	-	1,641,398
Expenses				
Program services	1,438,009	-	-	1,438,009
Management and general	108,943	-	-	108,943
Fund-raising and special events	58,660	-	-	58,660
Total expenses	1,605,612	-	-	1,605,612
Change in net assets	(21,644)	57,430	-	35,786
Net assets, beginning of year	(104,212)	560,780	30,000	486,568
NET ASSETS (DEFICIT), END OF YEAR	$ (125,856)	$ 618,210	$ 30,000	$ 522,354

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, 2012

	Program Services	Management and General	Fund-Raising and Special Events	Total Expenses
Expenses				
Salaries and benefits	$ 532,075	$ 56,000	$ 32,500	$ 620,575
Payroll taxes	37,147	4,060	2,356	43,563
Contract labor	473,723	-	-	473,723
Accounting	-	14,819	-	14,819
Publicity	59,977	-	381	60,358
Royalties	86,471	-	-	86,471
Production expenses	74,101	-	-	74,101
Postage	38,507	1,921	2,401	42,829
Printing	40,902	-	2,541	43,443
Repairs	7,051	-	-	7,051
Utilities	21,239	1,100	500	22,839
Rent	239,953	10,800	-	250,753
Equipment rental	2,499	3,000	-	5,499
Telephone	8,702	900	500	10,102
Supplies	5,917	4,239	880	11,036
Insurance	11,255	-	-	11,255
Depreciation	16,517	-	-	16,517
Bank charges	-	151	-	151
Miscellaneous	7,287	1,732	-	9,019
Credit card fees	-	24,272	-	24,272
Concenssions expense	30,219	-	-	30,219
Special events	-	-	22,735	22,735
TOTAL EXPENSES	$ 1,693,542	$ 122,994	$ 64,794	$ 1,881,330

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, 2011

	Program Services	Management and General	Fund-Raising and Special Events	Total Expenses
Expenses				
Salaries and benefits	$ 459,237	$ 45,399	$ 27,901	$ 532,537
Payroll taxes	30,020	3,617	2,532	36,169
Contract labor	416,993	-	2,000	418,993
Accounting	-	14,042	-	14,042
Publicity	45,738	-	1,042	46,780
Royalties	62,186	-	-	62,186
Production expenses	61,975	-	-	61,975
Postage	28,573	1,701	2,999	33,273
Printing	41,407	362	2,872	44,641
Repairs	6,800	528	-	7,328
Utilities	23,234	900	900	25,034
Rent	211,084	10,800	-	221,884
Equipment rental	1,612	1,611	-	3,223
Telephone	8,704	1,000	500	10,204
Supplies	7,396	3,940	1,644	12,980
Insurance	13,706	-	-	13,706
Depreciation	12,583	-	-	12,583
Bank charges	-	150	-	150
Miscellaneous	6,761	4,823	-	11,584
Credit card fees	-	20,070	-	20,070
Special events	-	-	16,270	16,270
TOTAL EXPENSES	$ 1,438,009	$ 108,943	$ 58,660	$ 1,605,612

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, 2012 AND 2011

	2012	2011
Cash flows from operating activities		
Increase in net assets	**$ 109,184**	$ 35,786
Adjustments to reconcile net change in net assets to net cash from operating activities:		
Depreciation	**16,517**	12,583
Unrealized gain on investments	**(4,020)**	(3,622)
Changes in operating assets and liabilities:		
Grants receivable	**(3,182)**	17,000
Prepaid expenses	**(3,602)**	(10,739)
Accounts payable	**2,863**	(41,217)
Deferred revenue – deposits/prepayments	**(17,388)**	(82)
Deferred revenue – tuition	**(12,603)**	19,171
Net cash from operating activities	**87,769**	28,880
Cash flows from investing activities		
Cash restricted for capital campaign	**8,855**	(44,443)
Purchases of property and equipment	**(53,978)**	(847)
Deposits	**(1,364)**	(3,999)
Net cash from investing activities	**(46,487)**	(49,289)
Cash flows from financing activities		
Net proceeds (repayments) on revolving line of credit	**(49,295)**	29,295
Proceeds from redemption of certificate of deposit	**4,000**	
Payments on capital lease obligations	**(2,500)**	(2,200)
Net cash from financing activities	**(47,795)**	27,095
Net change in cash and cash equivalents	**(6,513)**	6,686
Cash and cash equivalents, beginning of year	**40,245**	33,559
Cash and cash equivalents, end of year	**$ 33,732**	$ 40,245
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 1,750**	$ 3,523

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

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

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, grants and special events.

Financial Statement Presentation – The Organization presents its financial statements under accounting guidance for *Not for Profit Organizations* and in accordance with accounting principles generally accepted in the United States of America (GAAP). 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.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents – The Organization considers all highly liquid investments with an original maturity of three 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.

Allowance for Doubtful Accounts – The Organization believes all balances included in grants receivable are fully collectible. As such, no provision has been made for bad debts.

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.

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.

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.

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.

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.

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.

Advertising – Advertising costs are expensed as incurred. For the fiscal years ended August 31, 2012 and 2011, advertising costs were $60,358 and $46,780, respectively.

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.

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, 2012 and 2011, the Organization has Level 1 and Level 2 investments which are measured at fair value on a recurring basis (*see Note 3*).

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

Recent Accounting Pronouncements – The Organization has implemented all new accounting pronouncements and does not believe that there are any other new accounting pronouncements that have been issued that may have a material impact on its financial statements.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of August 31, 2012 and 2011:

	2012	2011
Furniture, fixtures, and equipment	**$ 40,881**	$ 37,546
Leasehold improvements	**248,993**	230,031
	289,874	267,577
Less: accumulated depreciation	**(227,606)**	(211,089)
Prepaid leasehold construction	**19,826**	
Prepaid building acquisition costs	**11,855**	-
Total property and equipment, net	**$ 93,949**	$ 56,488

Depreciation expense totaled $16,517 and $12,583 during the fiscal years ended 2012 and 2011, respectively.

NOTE 3 – INVESTMENTS

As described in *Note 1*, the Organization measures its investments at fair value. Investments include amounts restricted for the Saunders Endowment Fund as described in *Note 6.* Fair values of assets measured on a recurring basis at August 31, 2012 and 2011 are summarized below:

	August 31, 2012			
	Level 1	Level 2	Level 3	Fair Value
Money market funds for long-term investment	**$ 7,323**	**$ -**	**$ -**	**$ 7,323**
Mutual funds – corporate stocks	**-**	**29,653**	**-**	**29,653**
Totals	**$ 7,323**	**$ 29,653**	**$ -**	**$ 36,976**

	August 31, 2011			
	Level 1	Level 2	Level 3	Fair Value
Money market funds for long-term investment	$ 7,399	$ -	$ -	7,399
Certificate of deposit	4,000	-	-	4,000
Mutual funds – corporate stocks	-	25,557	-	25,557
Totals	$ 11,399	$ 25,557	$ -	$ 36,956

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 consisted of money market funds at August 31, 2012 and 2011 and a certificate of deposit at August 31, 2011. 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.

Unrealized appreciation of investments at August 31, 2012 and 2011 are summarized below:

	2012		
	Cost	Fair Value	Unrealized
Money market funds for long-term investment	**$ 7,323**	**$ 7,323**	**$ -**
Mutual funds – corporate stocks	**20,000**	**29,653**	**9,653**
Totals	**$ 27,323**	**$ 36,976**	**$ 9,653**

	2011		
	Cost	Fair Value	Unrealized
Money market funds for long-term investment	$ 7,324	$ 7,399	$ 75
Certificate of deposit	4,000	4,000	-
Mutual funds – corporate stocks	20,000	25,557	5,557
Totals	$ 31,324	$ 36,956	$ 5,632

The following schedule summarizes the investment return which is reported in investment gain in the statements of activities and changes in net assets for the fiscal years ended August 31, 2012 and 2011:

	2012			
	Unrestricted	Temporarily	Permanently	Total
Total unrealized gains	**$ 4,020**	**$ -**	**$ -**	**$ 4,020**

	2011			
	Unrestricted	Temporarily	Permanently	Total
Total unrealized gains	$ 3,622	$ -	$ -	$ 3,622

NOTE 4 – 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, 2012 and 2011). The credit line is not secured by the Organization's assets. The outstanding line of credit was $-0- and $49,295 at August 31, 2012 and 2011, respectively. Interest expense, which is recorded in miscellaneous expense, related to the line of credit and other payables of $1,750 and $3,523 was incurred during 2012 and 2011, respectively.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2012 and 2011, the Organization had $619,270 and $618,210, respectively, in temporarily restricted net assets to be used primarily for the purchase and renovation of a building as further described in *Note 10*.

In addition, with respect to these temporarily restricted net assets, the Organization has set aside restricted cash of $35,588 and $44,443 at August 31, 2012 and 2011, respectively.

NOTE 6 – 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, 2012 and 2011	$ 30,000

The Saunders Endowment Fund is on deposit with a financial services firm in Houston Texas and is invested in a money market account and a mutual fund account (*see Note 3*). 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 Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) 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 TUPMIFA. In accordance with TUPMIFA, 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, 2012 and 2011 consist of the following:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	**$ 6,976**	**$ -**	**$ 30,000**	**$ 36,976**
Board-designated endowment funds	**-**	**-**	**-**	**-**
Total funds	**$ 6,976**	**$ -**	**$ 30,000**	**$ 36,976**

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 2,956	$ -	$ 30,000	$ 32,956
Board-designated endowment funds	-	-	-	-
Total funds	$ 2,956	$ -	$ 30,000	$ 32,956

Changes in endowment net assets for the fiscal years ended August 31, 2012 and 2011 include:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	**$ 2,956**	**$ -**	**$ 30,000**	**$ 32,956**
Investment income net appreciation (realized and unrealized)	**4,020**	**-**	**-**	**4,020**
Total investment return	**4,020**	**-**	**-**	**4,020**
Endowment net assets, end of year	**$ 6,976**	**$ -**	**$ 30,000**	**$ 36,976**

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (666)	$ -	$ 30,000	$ 29,334
Investment income net appreciation (realized and unrealized)	3,622	-	-	3,622
Total investment return (loss)	3,622	-	-	3,622
Endowment net assets, end of year	$ 2,956	$ -	$ 30,000	$ 32,956

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

	2012	2011
Permanently restricted net assets		
(1) The portion of perpetual endowment funds that is required be retained permanently either by explicit donor stipulation or by UPMIFA	**$ 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 TUPMIFA requires the Organization to retain as a fund of perpetual duration. These deficiencies may result from unfavorable market fluctuations. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies as of August 31, 2012 and 2011.

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.

The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 6% to 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 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 7 – LEASES

The Organization leases theaters and office space under various noncancelable operating lease agreements. One theater lease requires monthly payments of $12,675 through December 2012, and an office lease requires monthly payments of $2,470 through July 2015. Additionally, the Organization leases month-to-month office space for $2,950 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 year as of August 31, 2012:

For the Fiscal Year Ending August 31,	Amount
2013	$ 85,212
2014	34,008
2015	31,032
Total	$ 150,252

The Organization recognized $256,252 and $225,107 in rental expense for the fiscal years ended August 31, 2012 and 2011, 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, 2012:

Office and computer equipment	$ 7,304
Less: accumulated depreciation	(5,681)
Total	$ 1,623

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

The final capital lease payment of $1,851, which includes $59 interest, is due and payable in fiscal year 2013.

NOTE 8 – 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 9 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash investments and money market funds. The Organization maintains its cash balances in financial institutions, which at times exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC). Management periodically assesses the financial condition of the financial institutions and believes that any possible credit risk is minimal. The mutual funds, with a balance of $29,653 and $25,557 at August 31, 2012 and 2011, 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 grants receivable at August 31, 2012 and 2011, as 98% of the 2012 and 2011 balance of $511,182 and $508,000, respectively, comes from one grantor.

NOTE 10 – CAPITAL CAMPAIGN

In fiscal year 2008, the Organization's Board of Directors approved a capital campaign to fund the purchase of the theater building that the Organization is currently leasing month-to-month as described in Note 7. The goal of the capital campaign was to raise $3,500,000 by August 31, 2013. Through August 31, 2012, the Organization has raised over $600,000, including a $500,000 foundation pledge receivable towards the campaign. The Organization received the funds from the $500,000 pledge in November 2012. The scope of the campaign was changed during fiscal year 2012. Instead of purchasing the theater outright, the Organization intends to finance the purchase with the property's two owners to include expected mortgages on the theater in the amount of $900,000 and $335,000, for a total of $1,235,000. On November 30, 2012 the Organization paid a $300,000 down payment in connection with the $900,000 financing agreement related to the purchase of the theater. The mortgage due on the remaining $600,000 note requires interest-only monthly payments of $2,500 beginning January 1, 2013 for five years, with interest at 5.0% and a balloon payment due on December 1, 2017. The Organization is also in the process of negotiating the terms of the $335,000 mortgage with the prospective seller. The mortgage notes are expected to be repaid through capital campaign donations.

The Organization also plans to spend $2,255,000 on renovations. The renovations are expected to be completed in phases as donations are received for the capital campaign. Management expects that the campaign will be successful and completed as planned such that all capital contributions received and pledged will be used for their intended purpose. The Organization acquired the services of a capital campaign consultant to assist with raising the funds, and expenses associated with the capital campaign were $-0- and $1,000 for the fiscal years ended August 31, 2012 and 2011, respectively.

Additionally, the Organization has received commitment to fund an additional $250,000 that is contingent upon the Organization raising the balance of funds needed to purchase and renovate the theater building. The commitment is considered a conditional promise to give, and is not recorded in the statement of financial position and will not be recognized until the conditions are substantially met.

NOTE 11 – ECONOMIC CONDITIONS

As shown in the accompanying financial statements, the Organization has incurred a deficit in unrestricted net assets for the fiscal years ended August 31, 2012 and 2011.

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 10*).

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 revolving line of credit (*see Note 4*) as necessary.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 28, 2012, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than those disclosed in *Note 10* were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.