



**DIVERSIONARY THEATRE PRODUCTIONS, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2010 AND 2009**



**Leaf & Cole, LLP**  
*Certified Public Accountants*

**DIVERSIONARY THEATRE PRODUCTIONS, INC.**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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## Independent Auditor's Report

To the Board of Directors  
Diversionary Theatre Productions, Inc.  
4545 Park Blvd., Suite 101  
San Diego, California 92116

We have audited the accompanying statements of financial position of Diversionary Theatre Productions, Inc. as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years 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 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 Diversionary Theatre Productions, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Leaf & Cole LLP  
San Diego, California  
August 10, 2010

**DIVERSIONARY THEATRE PRODUCTIONS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2010 AND 2009**

**ASSETS**

	<u>2010</u>	<u>2009</u>
<b><u>Current Assets:</u></b> (Notes 1 and 3)		
Cash and cash equivalents	\$ 271,876	\$ 252,008
Accounts receivable, net	-	3,850
Grant receivable	11,049	17,701
Prepaid expenses and deposits	18,300	8,454
Total Current Assets	<u>301,225</u>	<u>282,013</u>
<b><u>Noncurrent Assets:</u></b> (Notes 1, 2, 4, 5, 6 and 7)		
Property and equipment, net	1,668,176	1,713,169
Loan costs, net	2,110	2,295
Restricted cash and cash equivalents	245,500	245,500
Beneficial interest in San Diego Foundation	8,690	7,546
Total Noncurrent Assets	<u>1,924,476</u>	<u>1,968,510</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,225,701</u>	<u>\$ 2,250,523</u>

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

**DIVERSIONARY THEATRE PRODUCTIONS, INC.**  
**STATEMENTS OF FINANCIAL POSITION (CONTINUED)**  
**JUNE 30, 2010 AND 2009**

**LIABILITIES AND NET ASSETS**

	<u>2010</u>	<u>2009</u>
<b><u>Current Liabilities:</u></b> (Notes 1 and 7)		
Accounts payable and accrued expenses	\$ 5,747	\$ 10,053
Deferred revenue	56,180	67,380
Tenant security deposits	2,608	2,608
Current portion of mortgage payable	14,124	11,101
Total Current Liabilities	<u>78,659</u>	<u>91,142</u>
 <b><u>Noncurrent Liabilities:</u></b> (Note 7)		
Mortgage payable, net of current portion	<u>551,867</u>	<u>565,991</u>
Total Noncurrent Liabilities	<u>551,867</u>	<u>565,991</u>
 Total Liabilities	 <u>630,526</u>	 <u>657,133</u>
 <b><u>Commitments</u></b> (Notes 6, 10 and 11)		
 <b><u>Net Assets:</u></b> (Notes 1, 8 and 9)		
Unrestricted	1,315,467	1,340,344
Temporarily restricted	25,518	-
Permanently restricted	254,190	253,046
Total Net Assets	<u>1,595,175</u>	<u>1,593,390</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u>\$ 2,225,701</u>	 <u>\$ 2,250,523</u>

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

**DIVERSIONARY THEATRE PRODUCTIONS, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support:</b>								
Ticket sales	\$ 176,300	\$ -	\$ -	\$ 176,300	\$ 228,668	\$ -	\$ -	\$ 228,668
Contributions	130,418	15,018	-	145,436	121,145	119,494	-	240,639
Rental income	49,671	-	-	49,671	46,349	-	-	46,349
Foundations and grants	24,500	21,000	-	45,500	34,500	-	-	34,500
City of San Diego Commission for Arts and Culture	44,197	-	-	44,197	70,802	-	-	70,802
Other income	32,887	-	-	32,887	31,148	-	-	31,148
In-kind contributions	20,040	-	-	20,040	9,215	-	-	9,215
Special events	9,185	-	-	9,185	-	-	-	-
Investment income	3,059	-	1,326	4,385	9,371	-	(2,339)	7,032
Net assets released from restriction	10,682	(10,500)	(182)	-	157,909	(157,794)	(115)	-
Total Revenue and Support	<u>500,939</u>	<u>25,518</u>	<u>1,144</u>	<u>527,601</u>	<u>709,107</u>	<u>(38,300)</u>	<u>(2,454)</u>	<u>668,353</u>
<b>Expenses:</b>								
<b>Program Services:</b>								
Production costs	<u>334,574</u>	<u>-</u>	<u>-</u>	<u>334,574</u>	<u>453,452</u>	<u>-</u>	<u>-</u>	<u>453,452</u>
<b>Supporting Services:</b>								
General and administrative	149,735	-	-	149,735	134,843	-	-	134,843
Fundraising	10,129	-	-	10,129	11,134	-	-	11,134
Total Supporting Services	<u>159,864</u>	<u>-</u>	<u>-</u>	<u>159,864</u>	<u>145,977</u>	<u>-</u>	<u>-</u>	<u>145,977</u>
<b>Special Events</b>	<u>10,998</u>	<u>-</u>	<u>-</u>	<u>10,998</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>494,438</u>	<u>-</u>	<u>-</u>	<u>494,438</u>	<u>599,429</u>	<u>-</u>	<u>-</u>	<u>599,429</u>
<b>Rental Expenses</b>	<u>20,380</u>	<u>-</u>	<u>-</u>	<u>20,380</u>	<u>23,960</u>	<u>-</u>	<u>-</u>	<u>23,960</u>
Total Expenses	<u>525,816</u>	<u>-</u>	<u>-</u>	<u>525,816</u>	<u>623,389</u>	<u>-</u>	<u>-</u>	<u>623,389</u>
Change in Net Assets	(24,877)	25,518	1,144	1,785	85,718	(38,300)	(2,454)	44,964
Net Assets at Beginning of Year	<u>1,340,344</u>	<u>-</u>	<u>253,046</u>	<u>1,593,390</u>	<u>1,254,626</u>	<u>38,300</u>	<u>255,500</u>	<u>1,548,426</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 1,315,467</u>	<u>\$ 25,518</u>	<u>\$ 254,190</u>	<u>\$ 1,595,175</u>	<u>\$ 1,340,344</u>	<u>\$ -</u>	<u>\$ 253,046</u>	<u>\$ 1,593,390</u>

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

**DIVERSIONARY THEATRE PRODUCTIONS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Change in net assets	\$ 1,785	\$ 44,964
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>		
Depreciation	57,025	42,979
Amortization	185	184
Permanently restricted investment (gain) loss	(1,326)	2,339
Permanently restricted distributions	182	115
Loss on disposal of property and equipment	97	52
<b>(Increase) Decrease in:</b>		
Accounts receivable	3,850	9,559
Grant receivable	6,652	(5,212)
Prepaid expenses and deposits	(9,846)	8,639
<b>Increase (Decrease) in:</b>		
Accounts payable and accrued expenses	(4,306)	(4,010)
Deferred revenue	(11,200)	639
Tenant security deposits	-	(1,600)
Net Cash Provided by Operating Activities	<u>43,098</u>	<u>98,648</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Purchase of property and equipment	(12,129)	(177,133)
(Increase) Decrease in beneficial interest	(1,144)	2,454
Net Cash Used in Investing Activities	<u>(13,273)</u>	<u>(174,679)</u>
<b><u>Cash Flows From Financing Activities:</u></b>		
Principal payments on mortgage payable	(11,101)	(10,374)
Permanently restricted investment gain (loss)	1,326	(2,339)
Permanently restricted distributions	(182)	(115)
Net Cash Used in Financing Activities	<u>(9,957)</u>	<u>(12,828)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	19,868	(88,859)
Cash and Cash Equivalents at Beginning of Year	<u>497,508</u>	<u>586,367</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 517,376</u>	<u>\$ 497,508</u>
<b><u>Supplemental Disclosures of Cash Flow Information:</u></b>		
Cash paid during the year for:		
Interest	<u>\$ 38,864</u>	<u>\$ 39,591</u>

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

**DIVERSIONARY THEATRE PRODUCTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**Note 1 - Organization and Significant Accounting Policies:**

**Organization**

Diversionary Theatre Productions, Inc. (the "Theatre") was organized in 1987 under the Nonprofit Public Benefit Corporation Law for public and charitable purposes. The Theatre produces its own works in its 106-seat space in San Diego University Heights neighborhood. The mission of the Theatre is to produce plays with lesbian, gay, bisexual and transgender (LGBT) themes that portray characters in the complexity and diversity both historically and contemporarily.

The Theatre's support comes from individual, corporate and foundation donors and various government and arts agencies, and event ticket sales to the general public.

**Significant Accounting Policies**

**Method of Accounting**

The financial statements of the Theatre have been prepared on the accrual basis of accounting which is in accordance with U.S. generally accepted accounting principles and, accordingly, reflect all significant receivables, payables, and other liabilities.

In June 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) was issued. The Codification is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The Codification is effective for financials statements issued for interim and annual periods ending after September 15, 2009. The implementation of this standard did not have a material impact on the financial position and results of operations.

**Financial Statement Presentation**

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

The FASB has issued reporting standards for endowments of not-for-profit Organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. In October, 2008 California adopted UPMIFA, with an implementation date of January 1, 2009. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

**DIVERSIONARY THEATRE PRODUCTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**Fair Value Measurements**

The Theatre has adopted the fair value standards for financial assets and liabilities that are required to be measured at fair value on a recurring basis. The Fair Value Measurement standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). These standards do not change existing guidance as to whether or not an instrument is carried at fair value.

The Theatre's statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Beneficial interest in San Diego Foundation is considered a Level 3 asset which represents an approximation of the discounted future cash flow based on the fair value of the underlying assets.

**Accounts Receivable**

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of accounts receivables. The allowance for doubtful accounts receivable totaled \$475 and \$6,229 at June 30, 2010 and 2009, respectively.

Management believes that the grant receivable was fully collectible; therefore, no allowance for doubtful accounts was recorded at June 30, 2010 and 2009.

**Contributions**

Contributions are recognized when the donor makes a promise to give to the Theatre that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**DIVERSIONARY THEATRE PRODUCTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Capitalization and Depreciation**

Property and equipment are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long these donated assets must be maintained, the Theatre reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Theatre reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment is depreciated using the straight-line method over the estimated useful asset lives as follows:

Building and improvements	15 - 27.5 years
Production equipment	3 - 7 years
Furnishings and equipment	5 - 7 years
Leasehold improvements	7 years

Depreciation aggregated \$57,025 and \$42,979 for the years ended June 30, 2010 and 2009, respectively. During 2010 the Theatre placed into service assets totaling \$332,757 which resulted in an increase in annual depreciation expense.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of property and equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

**Impairment of Real Estate**

The Theatre reviews its investment in real estate for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There are no impairment losses recognized in 2010 or 2009.

**Amortization**

Loan fees totaling \$2,772, net of accumulated amortization of \$662 and \$477 at June 30, 2010 and 2009, respectively, are amortized on the straight-line method. Amortization expense totaled \$185 and \$184 for the years ended June 30, 2010 and 2009, respectively.

**Compensated Absences**

Accumulated unpaid vacation benefits totaling \$3,596 and \$3,596 at June 30, 2010 and 2009, respectively are accrued when incurred and included in accounts payable and accrued expenses.

**DIVERSIONARY THEATRE PRODUCTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Revenue and Expense Recognition**

Revenues from ticket sales and expenses directly associated with future performance are deferred until the fiscal year in which the performances occur. Prepaid program expenses totaled \$14,277 and \$5,738 at June 30, 2010 and 2009, respectively, and are included in prepaid expenses and deposits. Deferred revenues from advance ticket sales totaled \$56,180 and \$67,380 at June 30, 2010 and 2009, respectively.

**Donated Services**

The Theatre utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services for the years ended June 30, 2010 and 2009, did not meet the requirements above, therefore no amounts were recognized in the financial statements.

In-kind contributions of advertising, goods and supplies used for program services and special events with an estimated fair value of \$20,040 and \$9,215 for the years ended June 30, 2010 and 2009, respectively, are included in in-kind contributions in the statements of activities.

**Allocated Expenses**

Expenses by function have been allocated among supporting services classifications on the basis of internal records and estimates made by the Theatre's management.

**Income Taxes**

The Theatre is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). The Theatre is not a private foundation.

The Theatre uses a loss contingencies approach for evaluating uncertain tax positions and continually evaluates changes in tax law and new authoritative rulings.

**Concentration of Credit Risk**

The Theatre maintains its cash and investments in bank deposit accounts and brokerage accounts which, at times, may exceed federally insured limits. The Theatre has not experienced any losses in such accounts. The Theatre believes it is not exposed to any significant credit risk on cash and cash equivalents.

**DIVERSIONARY THEATRE PRODUCTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Certificates of deposits that may be redeemed without a significant penalty are considered cash and cash equivalents regardless of the maturity. The following is the composition of the combined amounts appearing in the statement of cash flows:

	<u>2010</u>	<u>2009</u>
Cash and money market funds	\$ 477,376	\$ 368,608
Certificate of deposit	40,000	128,900
Total Cash and Cash Equivalents	<u>\$ 517,376</u>	<u>\$ 497,508</u>
Financial Statement Presentation:	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 271,876	\$ 252,008
Restricted cash and cash equivalents	245,500	245,500
Total Cash and Cash Equivalents	<u>\$ 517,376</u>	<u>\$ 497,508</u>

**Subsequent Events**

In preparing these financial statements, the Theatre has evaluated events and transactions for potential recognition or disclosure through August 10, 2010, the date the financial statements were available to be issued.

**Reclassification**

The Theatre has classified certain prior year information to conform with the current year presentation.

**Note 2 - Fair Value Measurements:**

The following table summarizes assets measured at fair value by classification within the fair value hierarchy as of June 30:

	2010			
Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2010	
Beneficial Interest in San Diego Foundation (Note 6)	\$ -	\$ -	\$ 8,690	\$ 8,690

**DIVERSIONARY THEATRE PRODUCTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**Note 2 - Fair Value Measurements: (Continued)**

	2009			
Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2009	
Beneficial Interest in San Diego Foundation (Note 6)	\$ <u>          -</u>	\$ <u>          -</u>	\$ <u>      7,546</u>	\$ <u>      7,546</u>

The reconciliation for financial instruments measured at fair value on a recurring basis as significant unobservable inputs (Level 3) are included in the Notes as indicated above.

**Note 3 - Grant Receivable:**

Grant receivable consists of the following at June 30:

	2010	2009
City of San Diego Commission for Arts and Culture	\$ <u>      11,049</u>	\$ <u>      17,701</u>

**Note 4 - Property and Equipment:**

Property and equipment consist of the following at June 30:

	2010	2009
Land	\$ 525,000	\$ 525,000
Building and improvements	1,255,672	1,255,672
Production equipment	60,262	54,889
Furnishings and equipment	21,926	21,926
Leasehold improvements	8,046	8,047
Subtotal	<u>1,870,906</u>	<u>1,865,534</u>
Less: Accumulated depreciation	<u>(202,730)</u>	<u>(152,365)</u>
Property and Equipment, Net	<u>\$ 1,668,176</u>	<u>\$ 1,713,169</u>

**DIVERSIONARY THEATRE PRODUCTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**Note 5 – Beneficial Interest in San Diego Foundation:**

The Theatre has a beneficial interest in endowment funds held at San Diego Foundation, which are classified as permanently restricted for these investments that must be maintained in perpetuity. The Beneficial Interest in San Diego Foundation is invested in a portfolio of equity and debt securities which is structured for long-term total return.

The activity in the beneficial interest in San Diego Foundation consisted of the following for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Balance at Beginning of Year	\$ 7,546	\$ 10,000
Investment income (loss)	1,326	(2,339)
Distributions	(182)	(115)
Total Beneficial Interest in San Diego Foundation	<u>\$ 8,690</u>	<u>\$ 7,546</u>

**Note 6 - Line-of-Credit:**

The Theatre has a line-of-credit with Wells Fargo Bank in the maximum amount of \$100,000 at an interest rate of the bank's index rate plus 1% (4.25% at June 30, 2010). The line-of-credit is due on or before December 15, 2011, and is secured by property and equipment. There were no outstanding borrowings on the line-of-credit at June 30, 2010 and 2009.

**Note 7 - Mortgage Payable:**

The Theatre has the following mortgage payable at June 30:

	<u>2010</u>	<u>2009</u>
Mortgage payable to Wells Fargo Bank in the original amount of \$600,000. Monthly installments of \$4,164 including principal and interest at 6.7%, with any remaining unpaid principal and interest due in full December 15, 2016. Secured by real property. Accrued interest payable totaled \$1,583 and \$1,633 at June 30, 2010 and 2009, respectively.	\$ 565,991	\$ 577,092
Less: Current Portion	(14,124)	(11,101)
Mortgage Payable, Noncurrent	<u>\$ 551,867</u>	<u>\$ 565,991</u>

The principal payments due on the mortgage payable are as follows for the years ended June 30:

<u>Years Ended June 30,</u>	
2011	\$ 14,124
2012	13,397
2013	14,322
2014	15,312
2015	16,370
Thereafter	492,466
	<u>\$ 565,991</u>

**DIVERSIONARY THEATRE PRODUCTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**Note 8 - Temporarily Restricted Net Assets:**

Temporarily restricted net assets consist of contributions received for performances and events occurring subsequent to June 30, 2010 and 2009. Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2010</u>	<u>2009</u>
Contributions for future performances	\$ 15,018	\$ -
James Irvine Foundation	10,500	-
	\$ 25,518	\$ -

Net assets in were released from donor restrictions by incurring expenses satisfying the restricted purpose as specified by donors as follows for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Wheelchair Lift	\$ -	\$ 37,700
Building	-	120,094
James Irvine Foundation	10,500	-
Total Net Assets Released From Restriction	\$ 10,500	\$ 157,794

**Note 9 - Endowment Net Assets**

The Theatre's endowment consists of two individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. The Theatre holds and manages one fund and the other fund is held and managed by San Diego Foundation.

In regards to the fund held and managed by the Theatre, the Board of Directors of the Theatre has interpreted the enacted version of UPMIFA 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 Theatre classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment (2) the original value of subsequent gifts donated to the permanent endowment (3) 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 Theatre in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Theatre considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

**DIVERSIONARY THEATRE PRODUCTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**Note 9 - Endowment Net Assets (Continued)**

1. The duration and preservation of the fund
2. The purposes of the Theatre 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 Theatre
7. The investment policies of the Theatre.

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Theatre to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2010.

The Theatre has adopted investment and spending policies for endowment funds that:

1. Protect the invested assets
2. Preserve spending capacity of the fund income
3. Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a level commensurate with that of the median fund in comparable Theatres
4. Comply with applicable laws

The Theatre's endowment funds are invested in cash and certificates of deposits that are structured to satisfy its long-term rate-of-return objectives. The Theatre 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 Theatre's spending policy is to disburse funds available to meet the current program needs of the Theatre.

The Theatre has endowment funds held and managed by San Diego Foundation ("SDF"). SDF manages the funds in accordance with the UPMIFA. SDF's objective is to maintain the purchasing power (real value) of the endowment funds. However, from time to time, the fair value of the assets in the endowment fund may fall below the level that the donors require the Theatre to retain as a fund of perpetual duration. The Theatre classifies permanently restricted net assets held by SDF as:

1. The original value of gifts donated to the fund
2. The original value of Theatre funds transferred to the fund
3. The original value of subsequent gifts donated to the fund
4. Investment income and realized and unrealized gains and losses on investments
5. Distributions from the fund in accordance with the spending policy

SDF has adopted investment and spending policies for endowment funds that:

1. Protect the invested assets
2. Preserve spending capacity of the fund income
3. Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a level commensurate with that of the median fund in comparable foundations
4. Comply with applicable laws

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**Note 9 - Endowment Net Assets (Continued)**

SDF's endowment funds are invested in a portfolio of equity and debt securities, which is structured for long-term total return. To provide diversification and to moderate risk, the investments are divided into carefully defined asset classes. Funding available for each asset classification is invested by professional money managers hired by SDF through a competitive process. The investment performance of each money manager is monitored by an independent consultant hired by SDF.

SDF's spending policy is to disburse 5% annually, based upon endowment principal market value over the last 36 months. These calculations are made on a monthly basis. If the market value of the Endowment Principal of any fund, at the end of each month, is less than the initial value of all contributions made to the Endowment Principal, then distributions will be limited to interest and dividends received. Given the recent market declines, many of the Foundation's endowment funds distributions will be limited to income received, which is approximately 2.5% of the endowment principal.

Endowment composition by type of fund as of June 30:

	Permanently Restricted	
	2010	2009
Donor restricted endowment funds:		
Endowment funds held by the Theatre	\$ 245,500	\$ 245,500
San Diego Foundation	8,690	7,546
Total Donor Restricted Endowment Funds	\$ 254,190	\$ 253,046

Changes in Endowment Net Assets for the years ended June 30:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at June 30, 2008	\$ -	\$ 255,500	\$ 255,500
Investment Return:			
Investment income	5,849	-	5,849
Net realized and unrealized losses	-	(2,339)	(2,339)
Total Investment Return	5,849	(2,339)	(3,510)
Appropriation of endowment assets for expenditure	(5,849)	(115)	(5,964)
Endowment Net Assets at June 30, 2009	-	253,046	253,046
Investment Return:			
Investment income	3,059	-	3,059
Net realized and unrealized gains	-	1,326	1,326
Total Investment Return	3,059	1,326	4,385
Contributions	-	-	-
Appropriation of endowment assets for expenditure	(3,059)	(182)	(3,241)
Endowment Net Assets at June 30, 2010	\$ -	\$ 254,190	\$ 254,190

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**Note 10 - Office Leases:**

The Theatre owns the building located at 4545 Park Blvd., San Diego, California and leases the office space under month-to-month operating leases and term leases which expire on various dates through June 2011. The leases include scheduled rent increases.

The following is a schedule of future minimum lease income under leases:

<u>Years Ended June 30,</u>	
2012	\$ <u>4,800</u>

**Note 11 - Equipment Lease:**

The Theatre leases a copier under a five year lease agreement that expires in November 2012. The following is a schedule of future minimum lease payments under the lease:

<u>Years Ended June 30,</u>	
2011	\$ 5,266
2012	4,632
2013	<u>1,544</u>
Total	\$ <u>11,442</u>

**Note 12 - Retirement Plan:**

The Theatre offers eligible staff employees the opportunity for participation in a Simple IRA plan. Employees may contribute to the Plan up to the maximum amount allowed by the Internal Revenue Code. The Theatre made a discretionary matching contribution ranging from 1% to 3% of compensation for the years ended June 30, 2010 and 2009. The Theatre contributed \$2,285 and \$3,273 to the Plan for the years ended June 30, 2010 and 2009, respectively.