

EXHIBIT A
AUDITED FINANCIAL STATEMENTS

DEPARTMENT OF CORPORATIONS
APR 03 2006
SACRAMENTO OFFICE

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APR 03 2006
SACRAMENTO OFFICE

KIDZART TEXAS, LLC
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2004 and 2005

E. KEITH MOORE

CERTIFIED PUBLIC ACCOUNTANT

880 LANDA ST.
NEW BRAUNFELS, TEXAS 78130
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INDEPENDENT AUDITOR'S REPORT

March 21, 2006

Board of Directors
KidzArt Texas, LLC
New Braunfels, Texas

I have audited the accompanying balance sheets of the KidzArt Texas, LLC as of December 31, 2004 and December 31, 2005 and the related statements of income and statements of change in members' equity and statements of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the KidzArt Texas, LLC, as of December 31, 2004 and December 31, 2005 and the results of operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.



KIDZART TEXAS, LLC

BALANCE SHEETS

DECEMBER 31

	<u>2004</u>	<u>2005</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 15,304	\$ 55,687
Accounts receivable		1,951
Due from Creating Confidence		5,077
Total Current Assets	<u>15,304</u>	<u>62,715</u>
Fixed Assets		
Equipment	926	2,383
Furniture	1,980	7,693
Leasehold improvements	946	2,785
Accumulated depreciation	<u>(374)</u>	<u>(1,420)</u>
Net Fixed Assets	<u>3,478</u>	<u>11,441</u>
Other Assets		
Lease deposit		1,150
Organizational costs	5,325	5,325
Start-up costs	13,825	13,825
Trademark costs	670	670
Accumulated amortization	<u>(6,510)</u>	<u>(10,340)</u>
Net Other Assets	<u>13,310</u>	<u>10,630</u>
TOTAL ASSETS	<u>\$ 32,092</u>	<u>\$ 84,786</u>
LIABILITIES AND EQUITY		
Current Liabilities		
Payroll taxes payable	2,750	834
KidzArt advertising fund		14,990
Accounts payable	<u>9,254</u>	<u>25,398</u>
Total Current Liabilities	<u>12,004</u>	<u>41,222</u>
Other Liabilities		
Loans from Members		53,511
Equity		
Members' equity	<u>20,088</u>	<u>(9,947)</u>
Total Equity	<u>20,088</u>	<u>(9,947)</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 32,092</u>	<u>\$ 84,786</u>

See accompanying notes to the financial statements.

KIDZART TEXAS, LLC

STATEMENTS OF INCOME

For the Years Ended December 31

	<u>2004</u>	<u>2005</u>
REVENUES		
Franchise fees	\$445,775	\$396,000
Training fees	8,425	
Royalties	63,617	123,230
Certified instructor fees	4,000	9,000
Curriculum fees	16,964	14,134
Territory fees	26,750	20,628
Other fees	4,190	12,683
Total Revenues	<u>569,721</u>	<u>575,675</u>
COST OF GOODS SOLD		
Training	21,341	24,637
Art Supplies	4,756	13,767
Supplies	4,669	15,316
Refunds	1,610	
Total Cost of Goods Sold	<u>32,376</u>	<u>53,720</u>
Gross Profit	537,345	521,955
EXPENSES		
Advertising	94,178	45,438
Amortization	2,102	3,830
Bank charges	167	1,142
Booth rental	222	13,389
Business gifts	504	1,390
Conference		6,630
Contract services	74,856	98,204
Contributions	553	852
Depreciation	374	1,046
Dues and subscriptions	3,492	3,020
Equipment rental	2,974	4,679
Franchise referral fees	25,171	1,200
Insurance	6,574	13,198
Interest	139	7,986
Internet service	843	1,608
Licenses and permits	3,945	3,490
Management fees		109,240
Marketing		25,598
Meals and entertainment	5,640	3,764

See accompanying notes to the financial statements.

KIDZART TEXAS, LLC

STATEMENTS OF INCOME

For the Years Ended December 31

	<u>2004</u>	<u>2005</u>
Miscellaneous	757	319
Office supplies	5,775	4,990
Payroll expenses	11,419	39,123
Postage and delivery	5,392	9,825
Press releases		14,456
Printing and reproduction	4,856	14,554
Professional fees	51,688	42,221
Promotions	561	
Rent	2,925	11,237
Repairs and maintenance	211	1,029
Security		680
Taxes	505	703
Telephone	6,149	11,941
Territory	111	1,675
Trademark		1,815
Travel	31,962	14,733
Utilities		766
Web site maintenance	2,483	10,073
Total Expenses	<u>348,532</u>	<u>525,844</u>
NET INCOME	<u>\$ 188,813</u>	<u>\$ (3,889)</u>

See accompanying notes to the financial statements.

KIDZART TEXAS, LLC

STATEMENTS OF CHANGE IN MEMBERS' EQUITY

For the Years Ended December 31

	<u>2004</u>	<u>2005</u>
Members' Equity at beginning of the year	\$ 11,565	\$ 20,088
Prior Period Adjustment		
Net Income	190,817	(3,889)
Members' Draws	<u>(182,294)</u>	<u>(26,146)</u>
Members' Equity at the end of the year	<u>\$ 20,088</u>	<u>\$ (9,947)</u>

See accompanying notes to the financial statements.

KIDZART TEXAS, LLC

STATEMENTS OF CASH FLOWS

For the Years Ended December 31

	<u>2004</u>	<u>2005</u>
Cash flows from operating activities		
Net Income (Loss)	\$ 190,817	\$ (3,889)
Adjustments to reconcile net income to net cash provided by operations		
Amortization	2,102	3,830
Depreciation	374	1,046
(Increase)Decrease in trademark costs	(670)	
(Increase)Decrease in accounts receivables		(7,028)
(Increase)Decrease in organizational costs	(1,400)	
Increase(Decrease) in payroll tax liabilities	2,749	(1,916)
Increase(Decrease) in refund payable	(4,000)	
Increase(Decrease) in advertising fund		14,990
Increase(Decrease) in accounts payable	3,829	16,144
Cash flows from operations	<u>193,801</u>	<u>23,177</u>
Cash flows from financing activities		
Members' loans		53,511
Members' draws	<u>(182,294)</u>	<u>(26,146)</u>
Cash flows from financing activities		<u>27,365</u>
Cash flows from investing activities		
Lease deposit		(1,150)
Purchase of fixed assets	<u>(3,851)</u>	<u>(9,009)</u>
Cash flows from investing activities		<u>(10,159)</u>
Increase in cash and cash equivalents	7,656	40,383
Cash and cash equivalents at beginning of the year	<u>7,648</u>	<u>15,304</u>
Cash and cash equivalents at the end of the year	<u>\$ 15,304</u>	<u>\$ 55,687</u>

See accompanying notes to the financial statements.

KIDZART TEXAS, LLC

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2005

Note A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of KidzArt Texas, LLC (KidzArt) is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to U.S. generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Operations

The Company was incorporated in July, 2002 as a limited liability company. The Company franchises the operation of home-based offices known as KidzArt®, which provide art instruction and products to children and adults through a uniform system that includes high standards of service, use of quality products, and the business format created and developed by KidzArt. KidzArt is currently offering franchises throughout the United States.

The Company has one franchise operating in Canada. The trademark name used in Canada is Young at Art.

KidzArt or its affiliates have since October 1997 operated at least one KidzArt® location that is similar to the franchise being offered throughout the United States.

Basis of Financial Statements

KidzArt uses the accrual basis of accounting for both financial statements and tax reporting. The accrual basis recognizes expenses when incurred regardless of when paid. KidzArt recognizes revenue in accordance with Statement of Financial Accounting Standards (SFAS) No. 45 "Accounting for Franchise Fee Revenue". This SFAS states that franchise fee revenue from an individual franchise sale ordinarily shall be recognized, when all material services or conditions relating to the sale have been substantially performed or satisfied by the franchisor.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, KidzArt considers all short-term debt securities with a maturity of 90 days or less from the date of purchase as a cash equivalent.

KIDZART TEXAS, LLC

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2005

Property and Equipment

The following classes of property and equipment are included in the financial statements:

Depreciable Life

Furniture	7 years
Equipment	5 years
Leasehold improvements	15 years

All depreciable assets are being depreciated using the straight-line method over the useful lives shown above. The total depreciation for the current year was \$1,046.

Amortization

The organizational and start-up costs are being amortized using the straight-line method over a 60 month period. These costs include state regulatory fees, legal fees, web site design, franchise offering circular, Canadian franchise agreement and other miscellaneous costs.

Income Taxes

KidzArt is a Limited Liability Company and therefore all tax attributes flow through to its members. Therefore no provision is made for income taxes on the financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note B – FRANCHISE FEES AND ROYALTIES

During the past year the initial franchise fee ranged from \$23,500 to \$28,500. An additional fee is required depending on the population of each franchise territory. Royalties were seven percent (7%) of monthly gross revenues with a minimum of \$200 during each month for the first year, \$250 for each month of the second year, \$350 during each month of the third and fourth years and \$400 during each month of the fifth year and

KIDZART TEXAS, LLC

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2005

each remaining year of the franchise term. Depending when the franchisee entered the system the royalties are under a different fee structure.

Note C – FOREIGN CURRENCY

Although there was no foreign currency exchange gain or loss, there was an affect on the financial statements related to the exchange rate between Canada and the United States. This affect is considered immaterial both individually and in the aggregate.

KIDZART TEXAS, LLC
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2003 and 2004

E. KEITH MOORE

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

February 24, 2005

Board of Directors
KidzArt Texas, LLC
New Braunfels, Texas

I have audited the accompanying balance sheets of the KidzArt Texas, LLC as of December 31, 2003 and December 31, 2004 and the related statements of income and statements of change in members' equity and statements of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the KidzArt Texas, LLC, as of December 31, 2003 and December 31, 2004 and the results of operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.



KIDZART TEXAS, LLC

BALANCE SHEETS

DECEMBER 31

	2003	2004
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7,648	\$ 15,304
Total Current Assets	<u>7,648</u>	<u>15,304</u>
Fixed Assets		
Equipment		926
Furniture		1,980
Leasehold improvements		946
Accumulated depreciation		(374)
Net Fixed Assets		<u>3,478</u>
Other Assets		
Organizational costs	3,926	5,325
Start-up costs	13,825	13,825
Trademark costs		670
Accumulated amortization	(3,400)	(9,510)
Net Other Assets	<u>13,342</u>	<u>13,340</u>
TOTAL ASSETS	<u>\$ 20,990</u>	<u>\$ 32,092</u>
LIABILITIES AND EQUITY		
Current Liabilities		
Payroll taxes payable		2,750
Rent payable	4,000	
Accounts payable	3,425	9,254
Total Current Liabilities	<u>9,425</u>	<u>12,004</u>
Equity		
Members' equity	11,565	20,088
Total Equity	<u>11,565</u>	<u>20,088</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 20,990</u>	<u>\$ 32,092</u>

See accompanying notes to the financial statements.

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KIDZART TEXAS, LLC

STATEMENTS OF INCOME

For the Years Ended December 31

	<u>2003</u>	<u>2004</u>
REVENUES		
Franchise fees	\$253,815	\$ 445,775
Training fees	1,000	8,425
Royalties	23,168	63,617
Certified instructor fees		4,000
Curriculum fees	6,198	16,964
Territory fees		26,750
Other fees	1,150	4,190
Total Revenues	<u>285,331</u>	<u>569,721</u>
COST OF GOODS SOLD		
Training	29,224	21,841
Art Supplies		4,756
Supplies	5,013	4,669
Refunds	7,000	1,610
Total Cost of Goods Sold	<u>41,237</u>	<u>32,876</u>
Gross Profit	244,094	537,345
EXPENSES		
Advertising	32,100	94,178
Amortization	3,248	2,102
Bank charges	203	167
Booth rental		222
Business gifts	837	504
Contract services	16,034	74,856
Contributions	50	683
Depreciation		374
Dues and subscriptions	3,067	3,492
Equipment rental	3,724	2,974
Franchise referral fees	500	25,171
Insurance		6,574
Interest		139
Internet service		843
Licenses and permits	795	3,945
Meals and entertainment	1,673	5,640
Miscellaneous	413	757
Office supplies	4,251	5,776
Payroll expenses		11,419

See accompanying notes to the financial statements.

KIDZART TEXAS, LLC

STATEMENTS OF INCOME

For the Years Ended December 31

	<u>2003</u>	<u>2004</u>
Penalties	1,000	
Postage and delivery	1,749	5,392
Printing and reproduction	1,812	4,856
Professional fees	23,655	51,688
Promotions		561
Rent		2,925
Repairs and maintenance		211
Taxes		505
Telephone	4,200	6,149
Territory		111
Travel	12,889	31,962
Web site maintenance	2,430	2,488
Total Expenses	<u>116,642</u>	<u>348,532</u>
NET INCOME	<u>\$127,352</u>	<u>\$188,813</u>

KIDZART TEXAS, LLC

STATEMENTS OF CHANGE IN MEMBERS' EQUITY

For the Years Ended December 31

	<u>2003</u>	<u>2004</u>
Members' Equity at beginning of the year	\$ 14,491	\$ 11,565
Prior Period Adjustment	(3,450)	
Net Income	129,455	190,817
Members' Draws	<u>(128,931)</u>	<u>(182,294)</u>
Members' Equity at the end of the year	<u>\$ 11,565</u>	<u>\$ 20,088</u>

See accompanying notes to the financial statements.

KIDZART TEXAS, LLC

STATEMENTS OF CASH FLOWS

For the Years Ended December 31

	<u>2003</u>	<u>2004</u>
Cash flows from operating activities		
Net Income	\$ 129,455	\$ 190,817
Adjustments to reconcile net income to net cash provided by operations		
Amortization	3,248	2,102
Depreciation		374
(Increase) Decrease in trademark costs		(670)
(Increase) Decrease in accounts receivable - royalties	841	
(Increase) Decrease in organizational costs	(1,250)	(1,400)
(Increase) Decrease in start-up costs	(4,732)	
Increase (Decrease) in payroll tax liabilities		2,749
Increase (Decrease) in refund payable		(4,000)
Increase (Decrease) in accounts payable	5,785	3,829
Cash flows from operations	<u>133,347</u>	<u>193,801</u>
Cash flows from financing activities		
Members' draws	<u>(128,990)</u>	<u>(182,294)</u>
Cash flows from investing activities		
Purchase of fixed assets		<u>(3,851)</u>
Increase in cash and cash equivalents	4,387	7,656
Cash and cash equivalents at beginning of the year	<u>3,261</u>	<u>7,648</u>
Cash and cash equivalents at the end of the year	<u>\$ 7,648</u>	<u>\$ 15,304</u>

See accompanying notes to the financial statements.

KIDZART TEXAS, LLC

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2004

Note A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of KidzArt Texas, LLC (KidzArt) is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to U.S. generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Operations

The Company was incorporated in July, 2002 as a limited liability company. The Company franchises the operation of home-based offices known as KidzArt®, which provide art instruction and products to children and adults through a uniform system that includes high standards of service, use of quality products, and the business format created and developed by KidzArt. KidzArt is currently offering franchises throughout the United States.

The Company has one franchise operating in Canada. The trademark name used in Canada is Young at Art.

KidzArt or its affiliates have since October, 1997 operated at least one KidzArt® location that is similar to the franchise being offered throughout the United States.

Basis of Financial Statements

KidzArt uses the accrual basis of accounting for both financial statements and tax reporting. The accrual basis recognizes expenses when incurred regardless of when paid. KidzArt recognizes revenue in accordance with Statement of Financial Accounting Standards (SFAS) No. 45 "Accounting for Franchise Fee Revenue". This SFAS states that franchise fee revenue from an individual franchise sale ordinarily shall be recognized when all material covenants or conditions relating to the sale have been substantially performed or satisfied by the franchisor.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, KidzArt considers all short-term debt securities with a maturity of 90 days or less from the date of purchase as a cash equivalent.

KIDZART TEXAS, LLC

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2004

Property and Equipment

The following classes of property and equipment are included in the financial statements:

Depreciable Life

Furniture	7 years
Equipment	5 years
Leasehold improvements	15 years

All depreciable assets are being depreciated using the straight-line method over the useful lives shown above. The total depreciation for the current year was \$373.

Amortization

The organizational and start-up costs are being amortized using the straight-line method over a 60 month period. These costs include state regulatory fees, legal fees, web site design, franchise offering circular, Canadian franchise agreement and other miscellaneous costs. Additional organizational costs related to qualifying to sell franchises for the first time in several states and trademark costs were capitalized this year.

Income Taxes

KidzArt is a Limited Liability Company and therefore all tax attributes flow through to its members. Therefore no provision is made for income taxes on the financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note B - FRANCHISE FEES AND ROYALTIES

During the past year the initial franchise fee ranged from \$14,900 to \$28,500. An additional fee is required depending on the population of each franchise territory. Royalties were seven percent (7%) of monthly gross revenues with a minimum of \$200 during each month for the first year, \$250 for each month of the second year, \$350 during each month of the third and fourth years and \$400 during each month of the fifth year and

KIDZART TEXAS, LLC

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2004

each remaining year of the franchise term. Each of these fees depended on the date the franchisee entered the system.

The initial franchise fee for Canada was \$28,500 (US Dollars).

Note C - FOREIGN CURRENCY

Although there was no foreign currency exchange gain or loss, there was an affect on the financial statements related to the exchange rate between Canada and the United States. This affect is considered immaterial both individually and in the aggregate.

EXHIBIT A

Territory and Location

1. The Territory described in Section 1.1A of the Franchise Agreement shall be defined as

2. The Location of your Office shall be at _____

Franchisee, Individually

Franchisee, Individually

and/or as an officer or partner of

By: _____
(Signature)

Title: _____

A _____ Corporation

_____ Partnership

_____ limited liability company

KidzArt Texas, LLC

President

Date

