LIGHTHOUSE MINISTRIES
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED AUGUST 31, 2007 AND 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Elders
Lighthouse Ministries

We have audited the accompanying statements of financial position of Lighthouse Ministries (a Tennessee not-for-profit organization, the "Ministries") as of August 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Ministries' 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.

As explained in Note 2 to the financial statements, the Ministries have not maintained cost or donated value records for some property and equipment. The values assigned to these assets were estimated by management and cannot be supported by audit evidence. Depreciation has been provided based upon these estimated values. Accounting principles generally accepted in the United States of America require that property and equipment be recorded at cost, if purchased, or at fair value, if donated. The effects on the financial statements of the preceding practice are not reasonably determinable.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Lighthouse Ministries as of August 31, 2007 and 2006 and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blankenship CPA Group, PLLC

February 18, 2008

LIGHTHOUSE MINISTRIES
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	$ 302,666	$ 404,904
Cash and cash equivalents - temporarily restricted	48,937	19,580
Total cash and cash equivalents	351,603	424,484
Tuition and fees receivable, less allowance for doubtful accounts of $63,597 and $389,593 for 2007 and 2006, respectively	118,462	110,247
Prepaid expense	20,552	2,000
Total Current Assets	490,617	536,731
PROPERTY AND EQUIPMENT, NET	1,779,493	1,786,320
TOTAL ASSETS	$ 2,270,110	$ 2,323,051
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	$ 567,562	$ 79,499
Accounts payable	87,734	101,063
Accrued expenses	44,151	78,432
Deferred revenue	424,331	482,250
Total Current Liabilities	1,123,778	741,244
NOTES PAYABLE, net of current portion	-	577,576
Total Liabilities	1,123,778	1,318,820
NET ASSETS		
Unrestricted	1,108,134	969,192
Temporarily restricted	38,198	35,039
Total Net Assets	1,146,332	1,004,231
TOTAL LIABILITIES AND NET ASSETS	$ 2,270,110	$ 2,323,051

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

LIGHTHOUSE MINISTRIES
STATEMENTS OF ACTIVITIES
YEARS ENDED AUGUST 31, 2007 AND 2006

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT						
Church tithes and offerings	$ 356,563	$ 90,151	$ 446,714	$ 661,764	$ 112,999	$ 774,763
School tuition and fees	2,892,275	-	2,892,275	2,183,973	-	2,183,973
School contributions	8,618	-	8,618	24,661	-	24,661
Fundraising	19,401	-	19,401	31,808	-	31,808
Net assets released from restrictions	86,992	(86,992)	-	108,161	(108,161)	-
Total revenues and other support	3,363,849	3,159	3,367,008	3,010,367	4,838	3,015,205
EXPENSES						
Church programs	298,911	-	298,911	354,800	-	354,800
School programs	2,842,655	-	2,842,655	2,107,750	-	2,107,750
Fundraising	45,741	-	45,741	50,268	-	50,268
Interest expense, net of interest income	37,600	-	37,600	44,909	-	44,909
Total expenses	3,224,907	-	3,224,907	2,557,727	-	2,557,727
INCREASE IN NET ASSETS	138,942	3,159	142,101	452,640	4,838	457,478
NET ASSETS, BEGINNING OF THE YEAR	969,192	35,039	1,004,231	516,552	30,201	546,753
NET ASSETS, END OF THE YEAR	$ 1,108,134	$ 38,198	$ 1,146,332	$ 969,192	$ 35,039	$ 1,004,231

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

LIGHTHOUSE MINISTRIES
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 142,101	$ 457,478
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	81,168	87,404
Donated assets	-	(295,300)
Increase in tuition and fees receivable	(8,215)	(66,838)
Increase in prepaid expense	(18,552)	(2,000)
Decrease in accounts payable	(13,329)	(16,605)
(Decrease) increase in accrued expenses	(34,281)	15,714
(Decrease) increase in deferred revenue	(57,919)	118,985
NET CASH PROVIDED BY OPERATING ACTIVITIES	90,973	298,838
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(74,341)	(53,632)
NET CASH USED IN INVESTING ACTIVITIES	(74,341)	(53,632)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments on line of credit	-	(50,000)
Payments on notes payable	(89,513)	(73,942)
NET CASH USED IN FINANCING ACTIVITIES	(89,513)	(123,942)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(72,881)	121,264
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	424,484	303,220
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 351,603	$ 424,484
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	$ 38,612	$ 42,862
NON-CASH INVESTING ACTIVITY: Donated property and equipment	$ -	$ 295,300

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

NOTE 1 - NATURE OF THE ORGANIZATION

Lighthouse Ministries (the "Ministries") is a Tennessee not-for-profit organization comprised of Lighthouse Baptist Church; Lighthouse Christian School; and the associated daycare and religious programs, all of which are located in Nashville, Tennessee. The accompanying financial statements have been prepared on the accrual basis of accounting, except as explained in Note 2, and include the assets, liabilities, net assets and financial activities of all program services of Lighthouse Ministries. All significant interdivision accounts and transactions have been eliminated in combination of the financial statements of the Ministries.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Classification of Restricted and Unrestricted Net Assets

The Ministries report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted based on the existence or absence of donor-imposed restrictions.

The Ministries report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Gifts of cash or other assets that must be used to acquire long-lived assets are also reported as restricted support. Absent explicit donor stipulations about how long gifts of cash or other assets must be maintained, the Ministries report expirations of donor restrictions when the donated or acquired long-lived assets are placed into service.

As of August 31, 2007 and 2006 there were no permanent restrictions on net assets.

Use of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, other support, and expenses during the reporting period. Actual results could vary from the estimates that were used.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

The Ministries expense advertising as incurred. Advertising expense was $1,759 and $926 for the years ended August 31, 2007 and 2006, respectively.

Cash and Cash Equivalents

The Ministries consider all highly liquid investments with a maturity of three months or less to be cash equivalents.

Property and Equipment and Depreciation

The Ministries have not maintained detail cost or donated values for land, various buildings and various equipment. Accordingly, some values have been estimated and assigned by management. New additions are recorded at cost, if purchased, or at fair value, if donated.

When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain (except on trade-in) or loss is included in the change in net assets for the period. Gain on trade-in is applied to reduce the cost of the new acquisition.

Depreciation is computed by the straight-line method over the estimated useful lives based on estimated and actual values as follows:

	Years
Buildings	10-40
Land improvements	20
Furniture and equipment	3-10
Vehicles	5

Depreciation expense for the years ended August 31, 2007 and 2006 amounted to $81,168 and $87,404, respectively.

Long-Lived Assets

The Ministries periodically review the values assigned to long-lived assets to determine if any impairments are other than temporary. Management believes that the long-lived assets in the accompanying statements of financial position are appropriately valued.

Deferred Revenue

Tuition and comprehensive fees billed and/or collected in advance of being earned have been included in the statements of financial position as deferred revenue. Such deferred revenue is recognizable within one year of the date of the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

A substantial number of church members have donated services to the Ministries' programs. No amounts have been included in the financial statements for donated services since they are not specialized services.

Tax Status

Lighthouse Ministries is a not-for-profit organization exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code.

Concentration of Credit Risk

Financial instruments that potentially subject the Ministries to concentrations of credit risk consist principally of cash and cash equivalents and tuition and fees receivable from individuals. Concentrations of credit risk with respect to tuition and fees receivable are limited primarily to parents and guardians of students in the Ministries' school program. Such individuals are unable to obtain transcripts of student records if tuition and fees receivable remain unpaid.

The Ministries' cash deposits are primarily in financial institutions in Tennessee and may at times exceed federally insured amounts. Cash accounts are insured by the Federal Deposit Insurance Corporation up to $100,000 per financial institution. At August 31, 2007 and 2006, the cash and cash equivalent balances exceeded the insured limit by $334,286 and $335,862, respectively.

Compensated Absences

The Ministries has not accrued compensated absences since the amount cannot be reasonably estimated. The Ministries' policy is to recognize these costs when actually paid.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment at their combined estimated and actual values are as follows:

	2007	2006
Land	$ 707,000	$ 707,000
Buildings	2,225,135	2,180,101
Land improvements	87,799	87,799
Furniture and equipment	481,249	451,942
Vehicles	101,684	101,684
	3,602,867	3,528,526
Accumulated depreciation	(1,823,374)	(1,742,206)
	$ 1,779,493	$ 1,786,320

NOTE 4 - LINE OF CREDIT

On March 9, 2007 the Ministries opened a $75,000 line of credit with SunTrust Bank. At August 31, 2007, the Ministries had no outstanding balance on this line of credit. The line bears interest at the SunTrust Prime rate of 8.25% at August 31, 2007. The line of credit is secured by real property.

NOTE 5 - NOTES PAYABLE

During 2005, the Ministries refinanced their long-term note payable with SunTrust Bank, which had a principal balance of $671,782 at August 31, 2005, combining the old principal balance and their line of credit into a new note with an original balance of $727,044. The balance on their new long-term note payable was $567,562 and $628,806 at August 31, 2007 and 2006, respectively. The note is payable in monthly installments of principal and interest of $7,973 with a final balloon payment of unpaid principal and accrued interest on June 2, 2008. Interest is accrued on the note at a rate of 5.65% and is secured by real property.

In 2005, the Ministries purchased two buses, which were financed by Key Equipment Finance. The first note is payable in monthly installments of $681 and was paid in full in September of 2006. The balance as of August 31, 2006 was $12,646. The second note is payable in monthly installments of $930 and was paid in full in September of 2006. The balance as of August 31, 2006 and was $15,623. Both notes were collateralized by title to the vehicles and had interest rates of 8.6% each.

Maturities of principal on the note payable are as follows:

Year ending August 31	
2008	$ 567,562

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The Ministries lease certain office equipment subject to noncancelable operating leases.

The following is a schedule of future minimum rental payments required under these noncancelable leases:

Year Ending August 31	
2008	$ 16,404
2009	9,660
2010	9,660
2011	1,965
Total	$ 37,689

Rent expense amounted to $32,809 and $27,019 for the years ended August 31, 2007 and 2006, respectively.

NOTE 7 - RETIREMENT PLAN

The Ministries provide three 403(b) pension plans from which all employees are eligible to participate. The Ministries do not provide any matching contributions to the plans.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Funds temporarily restricted by the donors as of August 31 are designated for the following purposes:

	2007	2006
Senior pastor's discretionary benevolence funds	$ 26,638	$ 3,942
Colorado Project	21,926	(14,570)
Missions	13,635	10,987
Bryan-CrossWorld	2,650	450
Jeff Shulte Restoration Fund	2,500	3,798
Lighthouse Christian camp	1,613	100
India book translation	1,275	1,275
Widows and single mothers	1,037	1,037
Kevin Mayfield mission trip	1,000	1,000
Tanner-CrossWorld	951	-
Gary Pickens mission trip	800	800
Ched Mickles mission trip	720	1,000
Katrina trip	410	410
Music ministry	250	250
Michael Bryson Philippine trip	216	-

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

Murray-CrossWorld	110	-
Charlie Orr	100	-
Needy families	86	353
Reford Trammel	60	60
Keith Abrams mission trip	50	-
Tape offering	48	708
Children of the World	47	6
Doctor Bowie Scholarship Fund	25	25
Women's conference	20	13
Jay Saiyasak	13	13
2006 Mission Trips	-	1,416
Virgil and Joy mission trip	-	700
Benji and Deanne Holt	-	505
Seeking Him	-	490
Matt and Cindy Phillips mission trip	-	411
Debbie Betzer home repairs	-	245
Bibles	-	160
Middle School retreat	-	158
Christ Life congregation	-	119
A Place Called Grace	-	100
Men's ministry	-	70
A Woman More Precious Than Jewels	-	60
Jerry and Wendy Cowles offering	-	60
Hospice	-	50
Paraguay	-	50
Ladies Bible Study	-	25
Bruce Fry	-	15
Laurel Kaiser mission trip	-	1
Rudy Vaughn	-	1
Out of town ministries	-	(11)
Joy Tanner mission trip	-	(251)
Canada mission trip	-	(355)
Youth ministries	(52)	945
Piano tuning	(225)	(225)
Tsunami offerings	(250)	(250)
Philippines	(1,208)	-
Donny Coulter	(1,250)	260
Mission trips 2007	(2,237)	-
India missions	(2,575)	1,079
Lighthouse Christian School development	(3,077)	21,863
CrossWorld	(7,062)	(731)
Mississippi relief trip	(1,046)	(1,046)
Laotian Churches	(8,843)	(2,380)
Ethiopian Project	(10,157)	(152)
	$ 38,198	$ 35,039