# EXHIBIT D

# FINANCIAL STATEMENTS

New

Young Rembrandts

A Children's Drawing Program

**YOUNG REMBRANDTS FRANCHISE, INC.**

**Annual Financial Statements**

**December 31, 2005**


**BUSINESS MATTERS**
NANCY GUTHRIE, CPA
600 SPRINGHILL RING ROAD STE 102
WEST DUNDEE, IL 60118
847-426-1115

**YOUNG REMBRANDTS FRANCHISE, INC.**
**ANNUAL FINANCIAL STATEMENTS**
**December 31, 2005**

## Table of Contents

**BUSINESS MATTERS**
600 SPRINGHILL RING ROAD SUITE 102
WEST DUNDEE, IL 60118
PHONE: 847-426-1115
FAX: 847-683-3751

To the Owners
Young Rembrandts Franchise, Inc.
Elgin, Illinois

I have audited the accompanying balance sheet of Young Rembrandts Franchise, Inc. as of December 31, 2005 and 2004, and the related statements of income, changes in retained earnings and 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 auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit 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. 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 Young Rembrandts Franchise, Inc. as of December 31, 2005 and 2004, and results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Nancy Guthrie

Nancy Guthrie, CPA
West Dundee, Illinois
January 31, 2006

## YOUNG REMBRANDTS FRANCHISE, INC.

### BALANCE SHEETS

### December 31, 2005 and 2004

### ASSETS

| | | 2005 | | 2004 |
|---|---|---|---|---|
| **Current Assets:** | | | | |
| Cash | $ | 3,581 | $ | 7,441 |
| Accrued royalty income | | 26,639 | | 21,342 |
| Accounts receivable | | 205 | | - |
| Franchise fees receivable | | 37,000 | | - |
| Prepaid expenses | | 4,727 | | 4,416 |
| Total current assets | | 72,151 | | 33,198 |
| **Property:** | | | | |
| Equipment | | 14,803 | | 14,803 |
| Furnishings | | 7,334 | | 7,334 |
| Accumulated depreciation | | (9,142) | | (5,134) |
| | | 12,995 | | 17,003 |
| **Other Assets:** | | | | |
| Organization costs, net of accumulated amortization | | - | | 6,179 |
| Total other assets | | - | | 6,179 |
| **Total Assets** | **$** | **85,146** | **$** | **56,380** |

### LIABILITIES AND EQUITY

| | | 2005 | | 2004 |
|---|---|---|---|---|
| **Current Liabilities:** | | | | |
| Accounts payable | $ | 43,884 | $ | 32,806 |
| Accrued referral fees | | 10,000 | | 2,500 |
| Current portion of long-term debt | | 6,243 | | - |
| Deferred income tax | | 1,281 | | 1,152 |
| Due to shareholders | | - | | 10,000 |
| Total current liabilities | | 61,408 | | 46,458 |
| **Long-term Liabilities:** | | | | |
| Long-term debt, net of current portion | | 22,757 | | - |
| **Stockholders' Equity:** | | | | |
| Common stock, $100.00 par value, authorized and issued 1,000 shares | | 1,000 | | 1,000 |
| Retained earnings | | (19) | | 8,922 |
| Total stockholders' equity | | 981 | | 9,922 |
| **Total Liabilities and Stockholders' Equity** | **$** | **85,146** | **$** | **56,380** |

The accompanying notes are an integral part of these financial statements

## YOUNG REMBRANDTS FRANCHISE, INC.

### STATEMENTS OF INCOME

### FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

| | 2005 | 2004 |
|---|---|---|
| **Franchise fee income** | $ 413,500 | $ 486,500 |
| **Royalty Income** | 356,430 | 225,869 |
| **Total Income** | 769,930 | 712,369 |
| **Operating Expenses:** | | |
| Commissions and referral fees | 133,700 | 191,900 |
| Payroll expenses | | |
| Wage and salaries | 305,108 | 262,926 |
| Payroll taxes | 30,001 | 26,422 |
| Employee benefits | 16,989 | 17,854 |
| Payroll processing | 1,360 | 1,173 |
| Recruitment | 584 | 1,284 |
| Training and conference - staff | 17,636 | 13,244 |
| Management fees | 6,197 | 12,112 |
| Marketing | | |
| Web development | 15,653 | 12,509 |
| Public relations | 21,330 | 37,142 |
| Promotional | 18,040 | 11,302 |
| Gifts | 3,060 | 6,650 |
| Printing | 1,027 | 2,857 |
| Advertising | 27,855 | 7,709 |
| Franchisee | | |
| Conference, net of receipts | 8,518 | 6,415 |
| Training | 4,237 | 5,357 |
| Legal fees | 30,337 | 34,456 |
| Travel | 10,820 | 11,445 |
| Postage and delivery | 9,222 | 12,642 |
| Office expense | 9,062 | 8,300 |
| Reproduction | 8,677 | 8,191 |
| Communications | 8,094 | 6,726 |
| Accounting fees | 6,733 | 7,479 |
| Amortization expense | 6,179 | 6,447 |
| Interest expense | 5,773 | 2,293 |
| Equipment rental | 4,609 | 4,190 |
| Publications | 4,505 | - |
| Meetings | 4,294 | 2,139 |
| Depreciation | 4,008 | 3,569 |
| Dues | 1,800 | 1,100 |
| Miscellaneous | 1,657 | 424 |
| Bank service charges | 1,121 | 91 |
| Contributions | 1,060 | 4,200 |
| Computer expense | 918 | 3,962 |
| Auto expense | 863 | 1,280 |
| Supplies | 402 | 2,116 |
| Permits and fees | 100 | 5,703 |
| | 731,529 | 743,607 |
| **Income before Income Taxes** | 38,400 | (31,238) |
| Provision for state income taxes | 561 | - |
| **Net Income** | **$ 37,839** | **$ (31,238)** |

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

## YOUNG REMBRANDTS FRANCHISE, INC.

### STATEMENTS OF CHANGES IN RETAINED EARNINGS

### FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

| | 2004 | 2003 |
|---|---|---|
| **Balance at Begining of Year** | $ 8,922 | $ 93,160 |
| Net Income for Year | 37,839 | (31,238) |
| Distributions paid | (46,780) | (53,000) |
| **Balance at End of Year** | **$ (19)** | **$ 8,922** |

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

## YOUNG REMBRANDTS FRANCHISE, INC.

### STATEMENTS OF CASH FLOWS

### FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

| | 2005 | 2004 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Net income | $ 37,839 | $ (31,238) |
| Noncash items included in net income: | | |
| Depreciation and amortization | 10,187 | 10,016 |
| Changes in: | | |
| Accrued royalty income | (5,297) | (11,162) |
| Accounts receivable | (205) | |
| Franchise fees receivable | (37,000) | 85,500 |
| Prepaid expenses | (311) | 5,832.28 |
| Deferred income tax | 129 | - |
| Accounts payable | 11,077 | 5,920 |
| Accrued referral fees | 7,500 | (10,000.00) |
| Due to shareholders | (10,000) | 10,000.00 |
| Net cash used by operating activities | 13,919 | 64,869 |
| **Cash Flows from Investing Activities:** | | |
| Purchase of equipment and furnishings | - | (4,807) |
| Net cash (used) by investing activities | - | (4,807) |
| **Cash Flows from Financing Activities:** | | |
| Distributions | (46,780) | (53,000) |
| Proceeds (payment) of note payable | 29,000 | - |
| Net cash provided by financing activities | (17,780) | (53,000) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | (3,861) | 7,061 |
| **Cash and Cash Equivalents:** | | |
| Beginning of year | 7,441 | 380 |
| End of year | **$ 3,580** | **$ 7,441** |

The accompanying notes are an integral part of these financial statements

YOUNG REMBRANDTS FRANCHISE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities and Organization – Young Rembrandts Franchise, Inc., an S-Corporation, is a franchisor providing curriculum and teaching systems for children's art education.

Basis of Accounting - The accompanying financial statements have been prepared using the accrual basis of accounting. Using this method, revenues are recognized when earned and expenses are recognized when incurred.
Basis of Presentation - Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles 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, gains and expenses during the reporting period. Actual results could differ from those estimates.
Furniture, Fixtures and Equipment - These assets are recorded in the accounts at cost. Depreciation is computed using straight line methods based upon estimated useful lives of the assets

NOTE 1 – NOTES RECEIVABLE:

Notes receivable consist of amounts due from franchisees, to be paid in full under terms of two interest free promissory notes by May and July, 2006.

NOTE 2 – LONG-TERM DEBT

Long-term debt consists of a $100,000 commercial line of credit under which $29,000 was outstanding at December 31, 2005, maturing November, 2010. The terms of the note include interest of 1% over the index rate (Wall Street Journal Prime Rate for domestic banks) which was initially 8% and monthly payments of interest and 2% of the outstanding principal balance (minimum $200). The loan is guaranteed by the shareholders and the Small Business Administration. The minimum future principal payments under these terms are:

| | | |
|---|---|---|
| Year | 2006 | $ 6,243 |
| | 2007 | 4,899 |
| | 2008 | 3,844 |
| | 2009 | 3,017 |
| | 2010 | 10,997 |

NOTE 3 – FRANCHISE SALES:

The Company has granted rights under franchise contracts to use trade name and services for a period of 11 yrs. These contracts provide for royalty fees based upon 8 to 10% of franchise income. As of December 31, 2005, a total of fifty one franchise contracts are operating in addition to the base operation, which is owned by an affiliated company with common ownership as the Company

| Franchise Sales | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| 1st quarter | 2 | 3 | 1 | 2 | 1 |
| 2nd quarter | 8 | 6 | 4 | 0 | 0 |
| 3rd quarter | 5 | 3 | 7 | 0 | 0 |
| 4th quarter | 0 | 4 | 8 | 1 | 3 |

Young Rembrandts

A Children's Drawing Program

**YOUNG REMBRANDTS FRANCHISE, INC.**

**Annual Financial Statements**

**December 31, 2004**

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To the Owners
Young Rembrandts Franchise, Inc.
Elgin, Illinois

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I conducted my audit in accordance with 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 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. 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 Young Rembrandts Franchise, Inc. as of December 31, 2004 and 2003, and results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

Nancy Guthrie

Nancy Guthrie, CPA
West Dundee, Illinois
January 20, 2005

YOUNG REMBRANDTS FRANCHISE, INC.

BALANCE SHEETS

December 31, 2004 and 2003

## ASSETS

| | | 2004 | | 2003 |
|---|---|---|---|---|
| **Current Assets:** | | | | |
| Cash | $ | 7,441 | $ | 380 |
| Accrued royalty income | | 21,342 | | 10,180 |
| Franchise fees receivable | | - | | 85,500 |
| Prepaid expenses | | 4,416 | | 10,248 |
| Total current assets | | 33,198 | | 106,308 |
| **Property:** | | | | |
| Equipment | | 14,803 | | 11,450 |
| Furnishings | | 7,334 | | 5,880 |
| Accumulated depreciation | | (5,134) | | (1,565) |
| | | 17,003 | | 15,765 |
| **Other Assets:** | | | | |
| Organization costs, net of accumulated amortization | | 6,179 | | 12,626 |
| Total other assets | | 6,179 | | 12,626 |
| **Total Assets** | $ | 56,380 | $ | 134,699 |

## LIABILITIES AND EQUITY

| | | 2004 | | 2003 |
|---|---|---|---|---|
| **Current Liabilities:** | | | | |
| Accounts payable | $ | 32,806 | $ | 26,887 |
| Accrued referral fees | | 2,500 | | 12,500 |
| Deferred income tax | | 1,152 | | 1,152 |
| Due to shareholders | | 10,000 | | - |
| Total current liabilities | | 46,458 | | 40,539 |
| **Stockholders' Equity:** | | | | |
| Common stock, $100.00 par value, authorized and issued 1,000 shares | | 1,000 | | 1,000 |
| Retained earnings | | 8,922 | | 93,160 |
| Total stockholders' equity | | 9,922 | | 94,160 |
| **Total Liabilities and Stockholders' Equity** | $ | 56,380 | $ | 134,699 |

The accompanying notes are an integral part of these financial statements

YOUNG REMBRANDTS FRANCHISE, INC.

STATEMENTS OF INCOME

FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

| | 2004 | 2003 |
|---|---|---|
| **Franchise fee income** | $ 486,500 | $ 613,000 |
| **Royalty Income** | 225,869 | 92,244 |
| **Total Income** | 712,369 | 705,245 |
| **Operating Expenses:** | | |
| Commissions and referral fees | 191,900 | 197,800 |
| Payroll expenses | | |
| Wage and salaries | 262,926 | 177,851 |
| Payroll taxes | 26,422 | 14,450 |
| Employee benefits | 17,854 | 6,278 |
| Payroll processing | 1,173 | 404 |
| Recruitment | 1,284 | - |
| Training and conference - staff | 13,244 | 4,599 |
| Management fees | 12,112 | 75,278 |
| Marketing | | |
| Web development | 12,509 | 23,323 |
| Public relations | 37,142 | 8,569 |
| Promotional | 11,302 | 7,397 |
| Gifts | 6,650 | 4,585 |
| Printing | 2,857 | 2,627 |
| Advertising | 7,709 | 1,729 |
| Franchisee | | |
| Conference, net of receipts | 6,415 | - |
| Training | 5,357 | 4,993 |
| Legal fees | 34,456 | 11,199 |
| Postage and delivery | 12,642 | 8,936 |
| Travel | 11,445 | 11,046 |
| Office expense | 8,300 | 8,686 |
| Reproduction | 8,191 | 4,266 |
| Accounting fees | 7,479 | 4,188 |
| Communications | 6,726 | 1,558 |
| Amortization expense | 6,447 | 6,447 |
| Permits and fees | 5,703 | 7,996 |
| Contributions | 4,200 | 3,750 |
| Equipment rental | 4,190 | 5,028 |
| Computer expense | 3,962 | 2,019 |
| Depreciation | 3,569 | 1,565 |
| Interest expense | 2,293 | 689 |
| Meetings | 2,139 | 1,119 |
| Supplies | 2,116 | 3,514 |
| Auto expense | 1,280 | 2,421 |
| Dues | 1,100 | 1,100 |
| Miscellaneous | 246 | 353 |
| Map expense | 179 | 1,279 |
| Bank service charges | 91 | 830 |
| | 743,607 | 617,871 |
| **Income before Income Taxes** | (31,238) | 87,373 |
| Provision for state income taxes | - | 1,059 |
| **Net Income** | $ (31,238) | $ 86,314 |

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

YOUNG REMBRANDTS FRANCHISE, INC.

STATEMENTS OF CHANGES IN RETAINED EARNINGS

FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

| | 2004 | 2003 |
|---|---|---|
| **Balance at Begining of Year** | $ 93,160 | $ 28,846 |
| Net Income for Year | (31,238) | 86,314 |
| Distributions paid | (53,000) | (22,000.00) |
| **Balance at End of Year** | **$ 8,922** | **$ 93,160** |

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

YOUNG REMBRANDTS FRANCHISE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

| | 2004 | 2003 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Net income | $ (31,238) | $ 86,314 |
| Noncash items included in net income: | | |
| Depreciation and amortization | 10,016 | 8,012 |
| Changes in: | | |
| Accrued royalty income | (11,162) | (1,168) |
| Franchise fees receivable | 85,500 | (83;917) |
| Prepaid expenses | 5,832 | (10,248.00) |
| Corporate tax accrual | - | 926 |
| Accounts payable | 5,920 | 26,887 |
| Accrued referral fees | (10,000) | 12,500.00 |
| Due to shareholders | 10,000 | - |
| Net cash used by operating activities | 64,869 | 39,306 |
| **Cash Flows from Investing Activities:** | | |
| Purchase of equipment and furnishings | (4,807) | (17,330) |
| Net cash (used) by investing activities | (4,807) | (17,330) |
| **Cash Flows from Financing Activities:** | | |
| Distributions | (53,000) | (22,000) |
| Proceeds (payment) of note payable | - | - |
| Net cash provided by financing activities | (53,000) | (22,000) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 7,061 | (24) |
| **Cash and Cash Equivalents:** | | |
| Beginning of year | 380 | 404 |
| End of year | $ 7,441 | $ 380 |

The accompanying notes are an integral part of these financial statements

YOUNG REMBRANDTS FRANCHISE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

## NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities and Organization – Young Rembrandts Franchise, Inc., an S-Corporation, is a franchisor providing curriculum and teaching systems for children's art education.

Basis of Accounting - The accompanying financial statements have been prepared using the accrual basis of accounting. Using this method, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation:
Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles 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, gains and expenses during the reporting period. Actual results could differ from those estimates.

Furniture, Fixtures and Equipment - These assets are recorded in the accounts at cost. Depreciation is computed using straight line methods based upon estimated useful lives of the assets.

## NOTE 2 – FRANCHISE SALES:

The Company has granted rights under franchise contracts to use trade name and services for a period of 10 yrs. These contracts provide for royalty fees based upon 10% of all income. As of December 31, 2004, a total of forty two franchise contracts have been sold and are operating in addition to the base operation, which is owned by an affiliated company with common ownership as the Company.

| Franchise Sales | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|
| 1st quarter | 3 | 2 | 1 | |
| 2nd quarter | 4 | 2 | 2 | |
| 3rd quarter | 4 | 9 | | 1 |
| 4th quarter | 4 | 8 | | 2 |

## NOTE 3 - INCOME TAXES

The Company is an S-Corporation for purposes of income-tax filing.


See Accountant's report.