

**BRIGHTSTONE, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED DECEMBER 31, 2007 AND 2006**

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# BLANKENSHIP CPA GROUP, PLLC

CELEBRATED PUBLIC ACCOUNTANTS AND CONSULTANTS

RECEIVED JUN 17 2008

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
BrightStone, Inc.

We have audited the accompanying statements of financial position of BrightStone, Inc. (a Tennessee not-for-profit corporation, the "Organization") as of December 31, 2007 and 2006 and the related statements of activities, functional expenses and cash flows for the 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 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. 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 BrightStone, Inc. as of December 31, 2007 and 2006, 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.

*Blankenship CPA Group, PLLC*

February 19, 2008

**BRIGHTSTONE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2007 AND 2006**

**ASSETS**

	<b>2007</b>	<b>2006</b>
Cash and cash equivalents	\$ 566,149	\$ 567,714
Certificates of deposit	354,200	310,707
Contributions receivable	37,570	51,514
Accounts receivable	676	3,153
Prepaid expenses	4,099	3,899
Construction in process	-	1,041,232
Property and equipment, net	<u>1,349,503</u>	<u>317,192</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,312,197</u></b>	<b><u>\$ 2,295,411</u></b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Payroll taxes payable	\$ 1,008	\$ 4,585
Accounts payable	10,527	163,145
Deferred revenue	11,800	7,500
Note payable	<u>849,297</u>	<u>709,782</u>
<b>Total Liabilities</b>	<b><u>872,632</u></b>	<b><u>885,012</u></b>

**NET ASSETS**

Unrestricted	1,439,565	1,405,399
Temporarily restricted	<u>-</u>	<u>5,000</u>
<b>Total Net Assets</b>	<b><u>1,439,565</u></b>	<b><u>1,410,399</u></b>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 2,312,197</u></b>	<b><u>\$ 2,295,411</u></b>
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The accompanying notes are an integral part of these financial statements.

**BRIGHTSTONE, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
<b>Changes in Unrestricted Net Assets</b>		
Revenues		
Contributions	\$ 177,013	\$ 203,543
Special events	221,941	251,049
Tuition	133,293	124,925
Fees	17,223	12,516
Product sales (net of direct costs of \$16,032 and \$13,523 for 2007 and 2006, respectively)	16,348	8,798
Loss on sale of investments	(3,477)	(5,284)
Interest income	48,257	25,375
	<hr/>	<hr/>
Total Unrestricted Revenues	610,598	620,922
	<hr/>	<hr/>
Net assets released from restrictions	26,175	151,960
	<hr/>	<hr/>
Total Unrestricted Revenues and Reclassifications	636,773	772,882
	<hr/>	<hr/>
Functional Expenses		
Program services	350,872	278,997
Supporting services:		
Fundraising		
Special events direct costs	54,008	57,057
General	60,539	41,912
	<hr/>	<hr/>
	114,547	98,969
	<hr/>	<hr/>
Management and general	137,188	69,023
	<hr/>	<hr/>
Total Unrestricted Functional Expenses	602,607	446,989
	<hr/>	<hr/>
Increase in unrestricted net assets	34,166	325,893
	<hr/>	<hr/>
<b>Changes in Temporarily Restricted Net Assets</b>		
Land and building contributions	17,175	146,960
Supplies, activities and training contributions	4,000	5,000
Net assets released from restrictions	(26,175)	(151,960)
	<hr/>	<hr/>
Decrease in temporarily restricted net assets	(5,000)	-
	<hr/>	<hr/>
<b>INCREASE IN NET ASSETS</b>	29,166	325,893
<b>NET ASSETS, BEGINNING OF THE YEAR</b>	1,410,399	1,084,506
	<hr/>	<hr/>
<b>NET ASSETS, END OF THE YEAR</b>	<u>\$ 1,439,565</u>	<u>\$ 1,410,399</u>

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

**BRIGHTSTONE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2007**

	Program Services	Supporting Services		Total
		Fund- raising	Management and General	
Compensation and related costs				
Compensation	\$ 187,739	\$ 34,135	\$ 64,973	\$ 286,847
Payroll taxes and other benefits	35,465	6,548	12,549	54,562
	<u>223,204</u>	<u>40,683</u>	<u>77,522</u>	<u>341,409</u>
Interest	33,953	5,224	13,059	52,236
Facilities	26,367	4,057	10,141	40,565
Depreciation	21,873	3,365	8,413	33,651
Office	-	-	24,553	24,553
Transportation	15,066	-	-	15,066
Scholarships	11,410	-	-	11,410
Lunches	9,083	-	-	9,083
Community relations and development	-	7,210	-	7,210
Teaching supplies and materials	6,649	-	-	6,649
Professional services	-	-	3,500	3,500
Student activities	1,713	-	-	1,713
Credit card fees	1,265	-	-	1,265
Training	289	-	-	289
	<u>350,872</u>	<u>60,539</u>	<u>137,188</u>	<u>548,599</u>
Total expenses before special events direct costs				
Donated items	-	20,216	-	20,216
Special events direct cost	-	33,792	-	33,792
	<u>-</u>	<u>54,008</u>	<u>-</u>	<u>54,008</u>
Total special events direct costs				
Total expenses	<u>\$ 350,872</u>	<u>\$ 114,547</u>	<u>\$ 137,188</u>	<u>\$ 602,607</u>

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

**BRIGHTSTONE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2006**

	<u>Supporting Services</u>			Total
	Program Services	Fund- raising	Management and General	
Compensation and related costs				
Compensation	\$ 161,209	\$ 28,661	\$ 45,209	\$ 235,079
Payroll taxes and other benefits	30,919	2,192	4,034	37,145
	<u>192,128</u>	<u>30,853</u>	<u>49,243</u>	<u>272,224</u>
Interest	-	-	-	-
Facilities	52,227	-	-	52,227
Depreciation	6,919	-	-	6,919
Office	-	-	15,958	15,958
Transportation	10,515	-	-	10,515
Scholarships	4,045	-	-	4,045
Lunches	7,274	-	-	7,274
Community relations and development	-	11,059	-	11,059
Teaching supplies and materials	3,250	-	-	3,250
Professional services	-	-	3,538	3,538
Student activities	1,513	-	-	1,513
Credit card fees	1,126	-	-	1,126
Training	-	-	284	284
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total expenses before special events direct costs	<u>278,997</u>	<u>41,912</u>	<u>69,023</u>	<u>389,932</u>
Donated items	-	19,797	-	19,797
Special events direct cost	-	37,260	-	37,260
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total special events direct costs	<u>-</u>	<u>57,057</u>	<u>-</u>	<u>57,057</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total expenses	<u>\$ 278,997</u>	<u>\$ 98,969</u>	<u>\$ 69,023</u>	<u>\$ 446,989</u>

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

**BRIGHTSTONE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 29,166	\$ 325,893
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities		
Depreciation	33,651	6,919
Loss on sale of investments	3,477	5,284
Loss on disposal of property and equipment	13	-
Contributions of investments	(45,806)	-
Contributions of property and equipment	-	(104,885)
Decrease (Increase) in:		
Contributions receivable	13,944	2,645
Prepaid expenses	(200)	(1,650)
Accounts receivable	2,477	(2,193)
Increase (decrease) in:		
Payroll taxes payable	(3,577)	333
Accounts payable	(152,618)	157,818
Deferred special events revenue	4,300	(15,225)
	<u>(115,173)</u>	<u>374,939</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for property and equipment	(24,743)	(880,714)
Reinvestment in certificates of deposit	(43,493)	(5,429)
Proceeds from the sale of investments	42,329	44,353
	<u>(25,907)</u>	<u>(841,790)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes payable	139,515	709,782
	<u>139,515</u>	<u>709,782</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,565)	242,931
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	567,714	324,783
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 566,149</u>	<u>\$ 567,714</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid during the year	\$ 52,237	\$ 11,267
Interest capitalized during the year	<u>\$ -</u>	<u>\$ 11,267</u>

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



**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

**NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES**

BrightStone, Inc. (the "Organization") is a Tennessee not-for-profit corporation that provides a comprehensive work, educational, and social support community for adults with special needs, expanding their potential and helping them develop mentally, physically, emotionally, socially, and spiritually. The purpose is to provide lifelong education that enables individuals to learn and work at job skills which contribute to society and to their personal fulfillment; develop meaningful job skills and productive work habits; eventually provide housing with assistance as needed, while teaching living skills toward social, emotional, and spiritual growth; provide opportunities for a richer, more fulfilling life through learning, experiencing, and enjoying mental, physical, and recreational skills; inspire others to provide similar opportunities in other communities; and to serve as a research center to improve the training and education of functionally disabled adults. The Organization's support consists of funds received from individuals and foundations. The Organization's revenues consist primarily of tuition paid by the students attending the Organization's work and educational programs.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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, liabilities and changes therein and the disclosures of commitments and contingencies. Actual results could differ from those estimates.

Cash and Cash Equivalents

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 Deposit

Certificates of deposit with a maturity date in excess of three months are separately disclosed on the statement of financial position. Interest earned is separately disclosed on the statement of activities.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the consolidated statements of activities as net assets released from restrictions.

Contributions are recognized when the donor makes an unconditional promise to give to the Organization. The Organization uses the allowance method to determine uncollectible unconditional contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. No allowance was deemed necessary as of December 31, 2007 and 2006.

Contributed Services

Various volunteers donate many hours to the Organization's program services and fundraising campaigns. These contributed services are not reflected in the financial statements since the services do not require specialized skills. Property, equipment, classroom space, materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their estimated fair values at the date of the receipt.

Revenue Recognition

Tuition revenue is collected and recognized for the educational services provided to the adult students during the week. Tuition received in advance is recorded as deferred tuition revenue and recognized as revenue in the month in which it is earned. The students in the Organization make and sell various products as part of the Organization's mission to incorporate work and learning skills in its program services. Revenue from product sales is substantially recognized when sold. Accounts receivable represent amounts owed from student tuition.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Investments

The Organization's policy is to liquidate investments as soon a practical after the donation of investment securities is received. Occasionally, the Organization will have investment securities on the statement of position that have not been liquidated at year end. These investments, if any, are stated in the aggregate at market value. Any gains or losses on the sell of these securities are separately reported on the statement of activities.

Property and Equipment and Depreciation

It is the Organization's policy to capitalize all property and equipment over \$500. Property and equipment acquisitions are recorded at cost. Donations of property and equipment are recorded as revenues at their estimated fair value. Such donations are reported as unrestricted revenues unless the donor has restricted the donated asset to a specific purpose. 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 statements of activities for the period. A gain on trade-in is applied to reduce the cost of the new acquisition. Depreciation is provided over the estimated useful lives of the assets ranging from five to seven years and computed on an accelerated method.

Deferred Special Events Revenue

Deferred special events revenue represents proceeds received in advance, net of related prepaid expenses, for the Organization's Writer's Night fundraiser which are not considered earned by the Organization (or expenses incurred) until after the event has been held.

Income Taxes

The Organization is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

**NOTE 3 - CONCENTRATION OF CREDIT AND MARKET RISK**

Financial instruments that potentially expose the Organization to concentrations of credit and market risk consist primarily of cash equivalents. Accounts at banks are insured by the Federal Deposit Insurance Corporation to a maximum of \$100,000. At December 31, 2007 and 2006, the Organization had deposits of \$182,508 and \$289,652 respectively, in excess of the insured amount.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

**NOTE 4 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable are summarized as follows:

	<b>2007</b>	<b>2006</b>
Receivable in less than one year	\$ 27,570	\$ 36,514
Receivable in one to five years	<u>10,000</u>	<u>15,000</u>
Total unconditional promises to give	<u>\$ 37,570</u>	<u>\$ 51,514</u>

**NOTE 5 - INVESTMENTS**

All investments donated to the Organization during 2007 were liquidated by year-end. Losses on the sales of these investments totaled \$3,477. During 2006, the Organization sold securities that were donated in 2005 for a loss of \$5,284.

**NOTE 6 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<b>2007</b>	<b>2006</b>
Land	\$ 315,000	\$ 315,000
Building and improvements	1,037,906	-
Transportation vehicles	61,290	61,290
Office equipment	12,728	11,019
Facility equipment	16,575	-
Furniture	<u>6,626</u>	<u>1,124</u>
	1,450,125	388,433
Accumulated depreciation	<u>(100,622)</u>	<u>(71,241)</u>
	<u>\$1,349,503</u>	<u>\$ 317,192</u>

Depreciation expense was \$33,651 and \$6,919 for 2007 and 2006, respectively.

Construction in process is attributable to the construction of a new building. The building was placed in service in January 2007 at which time depreciation began.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

**NOTE 7 - LONG-TERM NOTE PAYABLE**

The Organization has a construction loan dated November 30, 2005 with Tennessee Commerce Bank to be used to fund the construction of a new building. The maximum loan capacity was \$1,000,000 of which \$859,190 was drawn down for construction. A balance of \$849,297 and \$709,782 was outstanding at December 31, 2007 and 2006, respectively. The loan called for an interest rate of 6% with monthly interest payments until April 30, 2007 at which time monthly principal and interest payments of \$5,568 began. Upon completion of construction, the loan converted to a 6%, term loan with a 25-year amortization with one final balloon payment due November 30, 2011. The loan is collateralized by the real property being financed.

Scheduled repayments on the note payable are as follows:

Year Ending December 31,

2008	\$ 16,304
2009	17,309
2010	18,377
2011	<u>797,307</u>
Total	<u>\$ 849,297</u>

**NOTE 8 - TEMPORARILY RESTRICTED**

The temporary restrictions on net assets at December 31, are as follows:

	<b>2007</b>	<b>2006</b>
Supplies	\$ <u>-</u>	\$ <u>5,000</u>

There were no permanently restricted net assets as of December 31, 2007 and 2006.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

**NOTE 9 - IN-KIND CONTRIBUTIONS**

The following in-kind contributions have been included in unrestricted revenues and expenses in the financial statements for the years ended December 31, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Included in contributions:		
Rent	\$ 3,000	\$ 50,868
Supplies and services	15,470	-
 Included in special events:		
Prizes, fees and materials	<u>20,216</u>	<u>19,797</u>
	<u>\$ 38,686</u>	<u>\$ 70,665</u>

The following in-kind contributions have been included in temporarily restricted net assets and as property and equipment in the financial statements for the years ended December 31, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Included in land and building contributions:		
Construction in process	<u>\$ -</u>	<u>\$ 104,885</u>

**NOTE 10 - LEASING ARRANGEMENTS**

In 2006, the Organization was utilizing approximately 3,376 square feet of classroom and office space donated rent-free from a local church. The free rent is valued at \$3,939 per month for the year ended December 31, 2006. In 2007, this space was no longer used due to the Organization occupying a new building. The Organization also has rent-free space in two retail stores valued at \$250 month. These current leasing arrangements are based on informal month-to-month agreements. These in-kind contribution amounts are included in unrestricted revenues and expenses as described above.