

**BRIGHTSTONE, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2006 AND 2005**

BRIGHTSTONE, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2006 AND 2005

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-12

BLANKENSHIP CPA GROUP, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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, 2006 and 2005 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 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, 2006 and 2005, 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

April 24, 2007

BRIGHTSTONE, INC.
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2006 AND 2005

ASSETS

	2006	2005
Cash and cash equivalents	\$ 878,421	\$ 630,061
Contributions receivable	51,514	54,159
Accounts receivable	3,153	960
Prepaid expenses	3,899	2,249
Investments	-	49,637
Construction in process	1,041,232	55,633
Property and equipment, net	<u>317,192</u>	<u>324,111</u>
TOTAL ASSETS	<u>\$ 2,295,411</u>	<u>\$ 1,116,810</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Payroll taxes payable	\$ 4,585	\$ 4,252
Accounts payable	163,145	5,327
Deferred special events revenue	7,500	22,725
Note payable	<u>709,782</u>	<u>-</u>
Total Liabilities	<u>885,012</u>	<u>32,304</u>
NET ASSETS		
Unrestricted	1,405,399	1,079,506
Temporarily restricted	<u>5,000</u>	<u>5,000</u>
Total Net Assets	<u>1,410,399</u>	<u>1,084,506</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,295,411</u>	<u>\$ 1,116,810</u>

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

BRIGHTSTONE, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Changes in Unrestricted Net Assets		
Revenues		
Contributions	\$ 203,543	\$ 296,617
Special events	251,049	208,234
Tuition	124,925	108,305
Product sales (net of direct costs of \$13,523 and \$12,651 for 2006 and 2005, respectively)	8,798	10,427
Loss on sale of investments	(5,284)	-
Interest income	25,375	13,280
Fees	12,516	1,145
	<u>620,922</u>	<u>638,008</u>
Total Unrestricted Revenues		
Net assets released from restrictions	<u>151,960</u>	<u>379,983</u>
	<u>772,882</u>	<u>1,017,991</u>
Total Unrestricted Revenues and Reclassifications		
Functional Expenses		
Program services	<u>278,997</u>	<u>219,106</u>
Supporting services:		
Fundraising		
Special events direct costs	57,057	52,961
General	41,912	38,389
	<u>98,969</u>	<u>91,350</u>
Management and general	<u>69,023</u>	<u>60,503</u>
Total Unrestricted Functional Expenses	<u>446,989</u>	<u>370,959</u>
Increase in unrestricted net assets	<u>325,893</u>	<u>647,032</u>
Changes in Temporarily Restricted Net Assets		
Scholarship contributions	-	5,000
Land and building contributions	146,960	356,983
Supplies, activities and training contributions	5,000	4,500
Net assets released from restrictions	<u>(151,960)</u>	<u>(379,983)</u>
(Decrease) increase in temporarily restricted net assets	<u>-</u>	<u>(13,500)</u>
INCREASE IN NET ASSETS	325,893	633,532
NET ASSETS, BEGINNING OF THE YEAR	<u>1,084,506</u>	<u>450,974</u>
NET ASSETS, END OF THE YEAR	<u>\$ 1,410,399</u>	<u>\$ 1,084,506</u>

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

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

	Program Services	<u>Supporting Services</u>		Total
		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>
Special events direct costs	-	57,057	-	57,057
Facilities	52,227	-	-	52,227
Office	-	-	15,958	15,958
Community relations and development	-	11,059	-	11,059
Transportation	10,515	-	-	10,515
Lunches	7,274	-	-	7,274
Depreciation	6,919	-	-	6,919
Scholarships	4,045	-	-	4,045
Professional services	-	-	3,538	3,538
Teaching supplies and materials	3,250	-	-	3,250
Student activities	1,513	-	-	1,513
Credit card fees	1,126	-	-	1,126
Training	-	-	284	284
	<u>-</u>	<u>-</u>	<u>284</u>	<u>284</u>
 Total Functional 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.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2005

	<u>Supporting Services</u>			Total
	Program Services	Fund- raising	Management and General	
Compensation and related costs				
Compensation	\$ 122,161	\$ 25,369	\$ 37,973	\$ 185,503
Payroll taxes and other benefits	24,887	2,096	3,368	30,351
	<u>147,048</u>	<u>27,465</u>	<u>41,341</u>	<u>215,854</u>
Special events direct costs	-	52,961	-	52,961
Facilities	49,047	-	-	49,047
Office	-	-	13,550	13,550
Community relations and development	-	10,924	-	10,924
Transportation	4,345	-	-	4,345
Lunches	5,995	-	-	5,995
Depreciation	7,937	-	-	7,937
Scholarships	1,485	-	-	1,485
Professional services	-	-	4,071	4,071
Teaching supplies and materials	1,107	-	-	1,107
Student activities	2,108	-	-	2,108
Credit card fees	34	-	-	34
Training	-	-	1,541	1,541
	<u> </u>	<u> </u>	<u>1,541</u>	<u>1,541</u>
Total Functional Expenses	<u>\$ 219,106</u>	<u>\$ 91,350</u>	<u>\$ 60,503</u>	<u>\$ 370,959</u>

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

BRIGHTSTONE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 325,893	\$ 633,532
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	6,919	7,937
Loss on sale of investments	5,284	-
Contributions of property and equipment	(104,885)	(200,746)
Contributions of investments	-	(49,637)
Decrease (Increase) in contributions receivable	2,645	(27,165)
Increase in prepaid expenses	(1,650)	(250)
Increase in accounts receivable	(2,193)	(960)
Increase in payroll taxes payable	333	1,219
Increase in accounts payable	157,818	3,300
(Decrease) increase in deferred special events revenue	(15,225)	17,975
	<u>374,939</u>	<u>385,205</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property and equipment	(880,714)	(172,175)
Proceeds from the sale of investments	44,353	-
	<u>(836,361)</u>	<u>(172,175)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	709,782	-
	<u>709,782</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	248,360	213,030
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>630,061</u>	<u>417,031</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 878,421</u>	<u>\$ 630,061</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid and capitalized during the year	<u>\$ 11,267</u>	<u>\$ -</u>

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

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

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.

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.

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

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, 2006 and 2005.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire during the 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.

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.

Investments

Investments are stated in the aggregate at market value. Investment income is comprised of realized and unrealized gains and losses and interest income.

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2006, the Organization had deposits of \$289,652 in excess of the insured amount.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows:

	2006	2005
Receivable in less than one year	\$ 36,514	\$ 34,159
Receivable in one to five years	<u>15,000</u>	<u>20,000</u>
Total unconditional promises to give	<u>\$ 51,514</u>	<u>\$ 54,159</u>

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 5 - INVESTMENTS

Investments at December 31, 2005 represent equity securities donated to the Organization during 2005. During 2006, these securities were sold for a realized loss of \$5,284.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2006	2005
Land	\$ 315,000	\$ 315,000
Transportation vehicles	61,290	61,290
Equipment	11,019	11,019
Furniture	<u>1,124</u>	<u>1,124</u>
	388,433	388,433
Accumulated depreciation	<u>(71,241)</u>	<u>(64,322)</u>
	<u>\$ 317,192</u>	<u>\$ 324,111</u>

Depreciation expense was \$6,919 and \$7,937 for 2006 and 2005, 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 will begin. Included in construction in process at December 31, 2006 is capitalized interest of \$11,267.

NOTE 7 - 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 is \$1,000,000 of which \$709,782 is outstanding at December 31, 2006. The loan calls 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 commence. Upon completion of construction, the loan shall continue as a 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.

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 8 - TEMPORARILY RESTRICTED

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

	2006	2005
Supplies	\$ 5,000	\$ -
Scholarship fund	<u>-</u>	<u>5,000</u>
	<u>\$ 5,000</u>	<u>\$ 5,000</u>

There were no permanently restricted net assets as of December 31, 2006 and 2005.

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, 2006 and 2005:

	2006	2005
Included in contributions:		
Rent	\$ 50,868	\$ 48,672
Included in special events:		
Prizes, fees and materials	<u>19,797</u>	<u>21,751</u>
	<u>\$ 70,665</u>	<u>\$ 70,423</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, 2006 and 2005:

	2006	2005
Included in land and building contributions:		
Land	\$ -	\$ 149,594
Construction in process	<u>104,885</u>	<u>51,152</u>
	<u>\$ 104,885</u>	<u>\$ 200,746</u>

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 10 - LEASING ARRANGEMENTS

The Organization is currently 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 and \$3,376 per month for the years ended December 31, 2006 and 2005, respectively. The Organization also has rent-free space in two retail stores valued at \$300 per 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.