

**BRIGHTSTONE, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2005 AND 2004**

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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

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, 2005 and 2004 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, 2005 and 2004, 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

March 28, 2006

BRIGHTSTONE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2005 AND 2004

ASSETS

	2005	2004
Cash and cash equivalents	\$ 630,061	\$ 417,031
Contributions receivable	54,159	26,994
Accounts receivable	960	-
Prepaid expenses	2,249	1,999
Investments	49,637	-
Construction in process	55,633	-
Property and equipment, net	<u>324,111</u>	<u>14,760</u>
 TOTAL ASSETS	 <u><u>\$ 1,116,810</u></u>	 <u><u>\$ 460,784</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Payroll taxes payable	\$ 4,252	\$ 3,033
Accounts payable	5,327	2,027
Deferred special events revenue	<u>22,725</u>	<u>4,750</u>
 Total Liabilities	 <u>32,304</u>	 <u>9,810</u>
 NET ASSETS		
Unrestricted	1,079,506	432,474
Temporarily restricted	<u>5,000</u>	<u>18,500</u>
 Total Net Assets	 <u>1,084,506</u>	 <u>450,974</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 1,116,810</u></u>	 <u><u>\$ 460,784</u></u>

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

BRIGHTSTONE, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Changes in Unrestricted Net Assets		
Revenues		
Contributions	\$ 296,617	\$ 187,394
Special events	208,234	160,261
Tuition	106,820	91,937
Product sales (net of direct costs of \$12,651 and \$4,855 for 2005 and 2004, respectively)	10,427	6,125
Interest income	13,280	3,953
Fees	<u>1,145</u>	<u>630</u>
Total Unrestricted Revenues	636,523	450,300
Net assets released from restrictions	<u>379,983</u>	<u>5,000</u>
Total Unrestricted Revenues and Reclassifications	<u>1,016,506</u>	<u>455,300</u>
Functional Expenses		
Program services	<u>217,587</u>	<u>162,524</u>
Supporting services:		
Fundraising		
Special events direct costs	52,961	36,775
General	<u>38,389</u>	<u>30,936</u>
	<u>91,350</u>	<u>67,711</u>
Management and general	<u>60,537</u>	<u>42,617</u>
Total Unrestricted Functional Expenses	<u>369,474</u>	<u>272,852</u>
Increase in unrestricted net assets	<u>647,032</u>	<u>182,448</u>
Changes in Temporarily Restricted Net Assets		
Scholarship contributions	5,000	-
Land and building contributions	356,983	2,500
Supplies, activities and training contributions	4,500	5,000
Net assets released from restrictions	<u>(379,983)</u>	<u>(5,000)</u>
(Decrease) increase in temporarily restricted net assets	<u>(13,500)</u>	<u>2,500</u>
INCREASE IN NET ASSETS	633,532	184,948
NET ASSETS, BEGINNING OF THE YEAR	<u>450,974</u>	<u>266,026</u>
NET ASSETS, END OF THE YEAR	<u><u>\$ 1,084,506</u></u>	<u><u>\$ 450,974</u></u>

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

BRIGHTSTONE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2005

	Program Services	Supporting Services		Total
		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
Depreciation	7,937	-	-	7,937
Lunches	5,995	-	-	5,995
Transportation	4,345	-	-	4,345
Professional services	-	-	4,105	4,105
Student activities	2,108	-	-	2,108
Training	-	-	1,541	1,541
Teaching supplies and materials	1,107	-	-	1,107
Fees	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total Functional Expenses	 <u>\$ 217,587</u>	 <u>\$ 91,350</u>	 <u>\$ 60,537</u>	 <u>\$ 369,474</u>

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

BRIGHTSTONE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2004

	Program Services	Supporting Services		Total
		Fund- raising	Management and General	
Compensation and related costs				
Compensation	\$ 99,465	\$ 14,951	\$ 23,106	\$ 137,522
Payroll taxes and other benefits	20,262	1,144	1,768	23,174
	<u>119,727</u>	<u>16,095</u>	<u>24,874</u>	<u>160,696</u>
Special events direct costs	-	36,775	-	36,775
Facilities	22,158	-	-	22,158
Office	-	-	5,079	5,079
Community relations and development	-	14,841	-	14,841
Depreciation	10,434	-	-	10,434
Lunches	4,400	-	-	4,400
Transportation	3,230	-	-	3,230
Professional services	-	-	11,690	11,690
Student activities	1,678	-	-	1,678
Training	-	-	731	731
Teaching supplies and materials	897	-	-	897
Fees	-	-	243	243
	<u>-</u>	<u>-</u>	<u>243</u>	<u>243</u>
 Total Functional Expenses	 <u>\$ 162,524</u>	 <u>\$ 67,711</u>	 <u>\$ 42,617</u>	 <u>\$ 272,852</u>

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

BRIGHTSTONE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 633,532	\$ 184,948
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	7,937	10,434
Contributions of property and equipment	(200,746)	-
Contributions of investments	(49,637)	-
Increase in contributions receivable	(27,165)	(8,155)
(Increase) decrease in prepaid expenses	(250)	4,102
Increase in accounts receivable	(960)	-
Increase in payroll taxes payable	1,219	639
Increase in accounts payable	3,300	2,027
Increase in deferred special events revenue	<u>17,975</u>	<u>400</u>
Net Cash Provided by Operating Activities	<u>385,205</u>	<u>194,395</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property and equipment	<u>(172,175)</u>	<u>(2,299)</u>
Net Cash Used by Investing Activities	<u>(172,175)</u>	<u>(2,299)</u>
Net Increase in Cash and Cash Equivalents	213,030	192,096
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>417,031</u>	<u>224,935</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u><u>\$ 630,061</u></u>	<u><u>\$ 417,031</u></u>

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

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004

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, 2005 AND 2004

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, 2005 and 2004.

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. During 2005 the Organization had no investment income.

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2005 AND 2004

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. At December 31, 2004, the Organization's balance exceeded the Federal Deposit Insurance Corporation (FDIC) limit by \$124,881. As of December 31, 2005, this risk was eliminated because the Organization transferred funds to several different institutions and now maintains balances less than \$100,000 in each institution.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows:

	2005	2004
Receivable in less than one year	\$ 34,159	\$ 26,994
Receivable in one to five years	<u>20,000</u>	<u>-</u>
Total unconditional promises to give	<u>\$ 54,159</u>	<u>\$ 26,994</u>

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 5 - INVESTMENTS

Investments at December 31, 2005 represent equity securities donated to the Organization during 2005. The carrying value of the securities is the same as the market value. There were no realized or unrealized gains or losses during 2005.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2005	2004
Land	\$ 315,000	\$ -
Transportation vehicles	61,290	61,290
Equipment	11,019	8,732
Furniture	<u>1,124</u>	<u>1,124</u>
	388,433	71,146
Accumulated depreciation	<u>(64,322)</u>	<u>(56,386)</u>
	 <u>\$ 324,111</u>	 <u>\$ 14,760</u>

Depreciation expense was \$7,937 and \$10,434 for 2005 and 2004, respectively.

Construction in process is attributable to the beginning construction phase of a new building. Depreciation on the building will begin when the asset is completed and placed in service.

NOTE 7 - NOTES 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 none has been borrowed at December 31, 2005. The loan calls for an interest rate of 6% with monthly interest payments until December 30, 2006 at which time monthly principal and interest payments of \$6,443 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, 2005 AND 2004

NOTE 8 - RESTRICTIONS ON NET ASSETS

The temporary restrictions on net assets at December 31, 2005 and 2004 are as follows:

	2005	2004
Student work program	\$ -	\$ 7,000
Scholarship fund	5,000	-
Land development	-	6,500
Classroom funds	-	4,000
Student activities	-	1,000
	<u>\$ 5,000</u>	<u>\$ 18,500</u>

There were no permanently restricted net assets as of December 31, 2005 and 2004.

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, 2005 and 2004:

	2005	2004
Included in contributions:		
Rent	\$ 48,672	\$ 23,076
Supplies, development and repairs	-	3,273
Included in special events:		
Prizes, fees and materials	<u>21,751</u>	<u>4,963</u>
	<u>\$ 70,423</u>	<u>\$ 31,312</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, 2005 and 2004:

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

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2005 AND 2004

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 \$3,376 and \$1,184 per month for the years ended December 31, 2005 and 2004, respectively. The Organization also has rent-free space in two retail stores valued at \$680 per month. These current leasing arrangements are based on informal month-to-month basis agreements. These in-kind contribution amounts are included in unrestricted revenues and expenses as described above.