

**BRIGHTSTONE, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2008 AND 2007**

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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, 2008 and 2007 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, 2008 and 2007, 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.

B Blankenship CPA Group, PLLC

February 20, 2009

BRIGHTSTONE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007

ASSETS

	2008	2007
Cash and cash equivalents	\$ 533,714	\$ 566,149
Certificates of deposit	251,638	354,200
Contributions receivable	15,383	37,570
Accounts receivable	2,800	676
Prepaid expenses	8,384	4,099
Property and equipment, net	<u>1,379,656</u>	<u>1,349,503</u>
TOTAL ASSETS	<u>\$ 2,191,575</u>	<u>\$ 2,312,197</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Payroll taxes payable	\$ 1,297	\$ 1,008
Accounts payable	1,488	10,527
Deferred revenue	11,858	11,800
Note payable	<u>831,577</u>	<u>849,297</u>
Total Liabilities	<u>846,220</u>	<u>872,632</u>
NET ASSETS		
Unrestricted	1,330,355	1,439,565
Temporarily restricted	<u>15,000</u>	<u>-</u>
Total Net Assets	<u>1,345,355</u>	<u>1,439,565</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,191,575</u>	<u>\$ 2,312,197</u>

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

BRIGHTSTONE, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Changes in Unrestricted Net Assets		
Revenues		
Contributions	\$ 163,275	\$ 177,013
Special events	246,920	221,941
Tuition	163,955	133,293
Fees	19,552	17,223
Product sales (net of direct costs of \$19,587 and \$16,032 for 2008 and 2007, respectively)	19,318	16,348
Loss on sale of investments	-	(3,477)
Interest income	24,914	48,257
	<u>637,934</u>	<u>610,598</u>
 Total Unrestricted Revenues	 637,934	 610,598
 Net assets released from restrictions	 <u>59,660</u>	 <u>26,175</u>
 Total Unrestricted Revenues and Reclassifications	 <u>697,594</u>	 <u>636,773</u>
 Functional Expenses		
Program services	<u>450,644</u>	<u>350,872</u>
Supporting services		
Fundraising		
Special events direct costs	52,126	54,008
General	104,518	60,539
	<u>156,644</u>	<u>114,547</u>
 Management and general	 <u>199,516</u>	 <u>137,188</u>
 Total Unrestricted Functional Expenses	 <u>806,804</u>	 <u>602,607</u>
 (Decrease) increase in unrestricted net assets	 <u>(109,210)</u>	 <u>34,166</u>
Changes in Temporarily Restricted Net Assets		
Land and building contributions	-	17,175
Supplies, activities and training contributions	74,660	4,000
Net assets released from restrictions	<u>(59,660)</u>	<u>(26,175)</u>
 Increase (decrease) in temporarily restricted net assets	 <u>15,000</u>	 <u>(5,000)</u>
 (DECREASE) INCREASE IN NET ASSETS	 (94,210)	 29,166
NET ASSETS - BEGINNING OF YEAR	<u>1,439,565</u>	<u>1,410,399</u>
NET ASSETS - END OF YEAR	<u>\$ 1,345,355</u>	<u>\$ 1,439,565</u>

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

BRIGHTSTONE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008

	Program Services	Supporting Services		Total
		Fund- raising	Management and General	
Compensation and related costs				
Compensation	\$ 254,126	\$ 73,942	\$ 117,571	\$ 445,639
Payroll taxes and other benefits	52,086	9,064	17,988	79,138
	<u>306,212</u>	<u>83,006</u>	<u>135,559</u>	<u>524,777</u>
Interest	31,423	982	16,693	49,098
Facilities	24,830	776	13,191	38,797
Depreciation	31,470	1,971	11,932	45,373
Office	-	1,932	17,387	19,319
Transportation	17,499	-	-	17,499
Scholarships	20,180	-	-	20,180
Lunches	7,816	-	-	7,816
Community relations and development	-	13,053	-	13,053
Teaching supplies and materials	7,213	-	-	7,213
Professional services	-	-	4,211	4,211
Student activities	2,657	-	-	2,657
Credit card fees	-	2,526	-	2,526
Training	1,344	272	543	2,159
	<u>450,644</u>	<u>104,518</u>	<u>199,516</u>	<u>754,678</u>
Total expenses before special events direct costs				
Donated items	-	17,668	-	17,668
Special events direct cost	-	34,458	-	34,458
	<u>-</u>	<u>52,126</u>	<u>-</u>	<u>52,126</u>
Total special events direct costs				
Total expenses	<u>\$ 450,644</u>	<u>\$ 156,644</u>	<u>\$ 199,516</u>	<u>\$ 806,804</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.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	\$ (94,210)	\$ 29,166
Adjustments to reconcile (decrease) increase in net assets to net cash used by operating activities		
Depreciation	45,373	33,651
Loss on sale of investments	-	3,477
Loss on disposal of property and equipment	-	13
Contributions of investments	-	(45,806)
Contributions of property and equipment	(9,500)	-
Decrease (increase) in		
Contributions receivable	22,187	13,944
Accounts receivable	(2,124)	2,477
Prepaid expenses	(4,285)	(200)
Increase (decrease) in		
Payroll taxes payable	289	(3,577)
Accounts payable	(9,039)	(152,618)
Deferred revenue	58	4,300
	<u>(51,251)</u>	<u>(115,173)</u>
Net Cash Used By Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property and equipment	(66,026)	(24,743)
Reinvestment in certificates of deposit	(12,085)	(43,493)
Proceeds from maturity of certificate of deposit	114,647	-
Proceeds from the sale of investments	-	42,329
	<u>36,536</u>	<u>(25,907)</u>
Net Cash Provided (Used) By Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	-	149,408
Payments on note payable	(17,720)	(9,893)
	<u>(17,720)</u>	<u>139,515</u>
Net Cash (Used) Provided By Financing Activities		
Net Decrease in Cash and Cash Equivalents	(32,435)	(1,565)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>566,149</u>	<u>567,714</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 533,714</u>	<u>\$ 566,149</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid during the year	<u>\$ 49,098</u>	<u>\$ 52,236</u>

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

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

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 statements of financial position. Interest earned is separately disclosed on the statements of activities.

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2008 AND 2007

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 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, 2008 and 2007.

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 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, 2008 AND 2007

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 statements of financial 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 statements 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 \$250,000 (\$100,000 for 2007) per financial institution. At December 31, 2008 and 2007, the Organization had deposits of \$0 and \$284,437 respectively, in excess of the insured amount.

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows:

	2008	2007
Receivable in less than one year	\$ 10,383	\$ 27,570
Receivable in one to five years	<u>5,000</u>	<u>10,000</u>
Total unconditional promises to give	<u>\$ 15,383</u>	<u>\$ 37,570</u>

NOTE 5 - INVESTMENTS

All investments donated to the Organization during 2008 and 2007 were liquidated by year-end. Losses on the sales of these investments totaled \$3,477 for 2007.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2008	2007
Land	\$ 315,000	\$ 315,000
Building and improvements	1,043,346	1,037,906
Transportation vehicles	125,030	61,290
Office equipment	18,108	12,728
Facility equipment	17,542	16,575
Furniture	<u>6,626</u>	<u>6,626</u>
	1,525,652	1,450,125
Accumulated depreciation	<u>(145,996)</u>	<u>(100,622)</u>
	<u>\$ 1,379,656</u>	<u>\$ 1,349,503</u>

Depreciation expense was \$45,373 and \$33,651 for 2008 and 2007, respectively.

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 7 - LONG-TERM NOTE PAYABLE

The Organization has a note payable with Tennessee Commerce Bank to finance the Organization's facility. A balance of \$831,577 and \$849,297 was outstanding at December 31, 2008 and 2007, respectively. The loan calls for an interest rate of 6% with monthly principal and interest payments of \$5,568, and includes 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,

2009	\$ 17,396
2010	18,469
2011	<u>795,712</u>
Total	<u>\$ 831,577</u>

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

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

	2008	2007
Supplies and equipment	<u>\$ 15,000</u>	<u>\$ -</u>

There were no permanently restricted net assets as of December 31, 2008 and 2007.

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 9 - IN-KIND CONTRIBUTIONS

The following in-kind contributions have been included in unrestricted revenues and expenses/assets in the financial statements for the years ended December 31, 2008 and 2007.

	2008	2007
Included in contributions/expenses		
Rent	\$ 3,500	\$ 3,000
Supplies and services	8,355	15,470
Included in special events/expenses		
Prizes, fees and materials	17,668	20,216
Included in contributions/assets		
Bus	<u>9,500</u>	<u>-</u>
	<u>\$ 39,023</u>	<u>\$ 38,686</u>

NOTE 10 - LEASING ARRANGEMENTS

The Organization has rent-free space in two retail stores. 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 in Note 9.