

**BRIGHTSTONE, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

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# 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, 2004 and 2003 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, 2004 and 2003, 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 11, 2005

**BRIGHTSTONE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2004 AND 2003**

**ASSETS**

	<b>2004</b>	<b>2003</b>
Cash and cash equivalents	\$ 417,031	\$ 224,935
Contributions receivable	26,994	18,839
Prepaid expenses	1,999	6,101
Property and equipment, net	<u>14,760</u>	<u>22,895</u>
TOTAL ASSETS	<u>\$ 460,784</u>	<u>\$ 272,770</u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Payroll taxes payable	\$ 3,033	\$ 2,394
Accounts payable	2,027	-
Deferred special events revenue	<u>4,750</u>	<u>4,350</u>
Total Liabilities	<u>9,810</u>	<u>6,744</u>

**NET ASSETS**

Unrestricted	432,474	250,026
Temporarily restricted	<u>18,500</u>	<u>16,000</u>
Total Net Assets	<u>450,974</u>	<u>266,026</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 460,784</u>	<u>\$ 272,770</u>

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

**BRIGHTSTONE, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
<b>Changes in Unrestricted Net Assets</b>		
Revenues		
Contributions	\$ 187,394	\$ 75,864
Special events	160,261	151,925
Tuition	91,937	72,750
Product sales, (net of direct costs of \$4,855 and \$3,722 for 2004 and 2003, respectively)	6,125	4,863
Interest income	3,953	1,230
Fees	630	625
	450,300	307,257
Net assets released from restrictions	5,000	650
	455,300	307,907
<b>Expenses</b>		
Program services	162,524	139,569
Supporting services:		
Fundraising		
Special events direct costs	36,775	33,665
General	30,936	22,578
	67,711	56,243
Management and general	42,617	27,407
	272,852	223,219
Increase in unrestricted net assets	182,448	84,688
<b>Changes in Temporarily Restricted Net Assets</b>		
Scholarship contributions	-	5,000
Land development contributions	2,500	4,000
Supplies and training contributions	4,000	-
Student activities contributions	1,000	-
Net assets released from restrictions	(5,000)	(650)
	2,500	8,350
<b>INCREASE IN NET ASSETS</b>	184,948	93,038
<b>NET ASSETS, BEGINNING OF THE YEAR</b>	266,026	172,988
<b>NET ASSETS, END OF THE YEAR</b>	\$ 450,974	\$ 266,026

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

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

	Program Services	<u>Supporting Services</u>		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
Community relations and development	-	14,841	-	14,841
Professional services	-	-	11,690	11,690
Depreciation	10,434	-	-	10,434
Office	-	-	5,079	5,079
Lunches	4,400	-	-	4,400
Transportation	3,230	-	-	3,230
Student activities	1,678	-	-	1,678
Teaching supplies and materials	897	-	-	897
Training	-	-	731	731
Fees	-	-	243	243
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total 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.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2003**

	Program Services	<u>Supporting Services</u>		Total
		Fund- raising	Management and General	
Compensation and related costs				
Compensation	\$ 77,932	\$ 17,758	\$ 17,758	\$ 113,448
Payroll taxes and other benefits	15,022	1,358	1,359	17,739
	<u>92,954</u>	<u>19,116</u>	<u>19,117</u>	<u>131,187</u>
Special events direct costs	-	33,665	-	33,665
Facilities	22,158	-	-	22,158
Community relations and development	-	3,462	-	3,462
Professional services	-	-	3,000	3,000
Depreciation	15,028	-	-	15,028
Office	-	-	5,124	5,124
Lunches	4,191	-	-	4,191
Transportation	3,053	-	-	3,053
Student activities	1,287	-	-	1,287
Teaching supplies and materials	898	-	-	898
Training	-	-	-	-
Fees	-	-	166	166
	<u>-</u>	<u>-</u>	<u>166</u>	<u>166</u>
Total Expenses	<u>\$ 139,569</u>	<u>\$ 56,243</u>	<u>\$ 27,407</u>	<u>\$ 223,219</u>

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

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

**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.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

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, 2004 AND 2003**

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

Contributions

Contributions are recognized when the donor makes an unconditional promise to give to the Organization. All contributions receivable are collectible within one year. 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, 2004 and 2003.

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 the retail vendors.

Property and Equipment and Depreciation

It is the Organization's policy to capitalize all property and equipment over \$100. Property and equipment acquisitions are recorded at cost. Donations of property and equipment are recorded as support 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.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

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

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 and 2003, the Organization's balance exceeded the Federal Deposit Insurance Corporation (FDIC) limit by \$124,881 and \$27,784, respectively. The Organization minimizes this risk by maintaining cash equivalents at high-quality financial institutions.

**NOTE 4 - RESTRICTIONS ON NET ASSETS**

The temporary restrictions on net assets at December 31, 2004 and 2003 are as follows:

	<b>2004</b>	<b>2003</b>
Student work program	\$ 7,000	\$ 7,000
Scholarship fund	-	5,000
Land development	6,500	4,000
Classroom funds	4,000	
Student activities	<u>1,000</u>	<u>-</u>
	<u>\$ 18,500</u>	<u>\$ 16,000</u>

There were no permanently restricted net assets as of December 31, 2004 and 2003.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

**NOTE 5 - 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, 2004 and 2003:

	<b>2004</b>	<b>2003</b>
Included in contributions:		
Rent	\$ 23,076	\$ 22,877
Supplies, development, and repairs	3,273	584
Included in special events:		
Prizes, fees, and materials	<u>4,963</u>	<u>6,085</u>
	<u>\$ 31,312</u>	<u>\$ 29,546</u>

**NOTE 6 - LEASING ARRANGEMENTS**

The Organization is currently utilizing approximately 1,932 square feet of classroom space donated rent-free from a local church. The free rent is valued at \$1,184 per month. The Organization also has rent-free space in a retail store valued at \$650 per month. Furthermore, in February 2003, the Organization began leasing a storage facility at a discounted rate of \$10 per month. The estimated value of the discount was \$79 and \$89 per month for 2003 and 2004, respectively. These current leasing arrangements are based on informal month-to-month basis agreements. The discounted in-kind contribution amounts are included in unrestricted revenues and expenses as described above.

**NOTE 7 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<b>2004</b>	<b>2003</b>
Transportation vehicles	\$ 61,290	\$ 61,290
Equipment	8,732	6,433
Furniture	<u>1,124</u>	<u>1,124</u>
	71,146	68,847
Accumulated depreciation	<u>(56,386)</u>	<u>(45,952)</u>
	<u>\$ 14,760</u>	<u>\$ 22,895</u>

Depreciation expense was \$10,434 and \$15,028 for 2004 and 2003, respectively.