

**BRIGHTSTONE, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED DECEMBER 31, 2009 AND 2008**

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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, 2009 and 2008 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, 2009 and 2008, 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 13, 2010

**BRIGHTSTONE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2009 AND 2008**

**ASSETS**

	<b>2009</b>	<b>2008</b>
Cash and cash equivalents	\$ 277,862	\$ 533,714
Certificates of deposit	102,390	251,638
Contributions receivable	15,538	15,383
Investments	9,451	-
Accounts receivable	4,037	2,800
Prepaid expenses	6,081	8,384
Property and equipment, net	<u>1,337,184</u>	<u>1,379,656</u>
 TOTAL ASSETS	 <u>\$ 1,752,543</u>	 <u>\$ 2,191,575</u>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Payroll taxes payable	\$ 3,650	\$ 1,297
Accounts payable	3,663	1,488
Deferred revenue	30,750	11,858
Note payable	<u>421,032</u>	<u>831,577</u>
 Total Liabilities	 <u>459,095</u>	 <u>846,220</u>
 <b>NET ASSETS</b>		
Unrestricted	1,277,895	1,330,355
Temporarily restricted	<u>15,553</u>	<u>15,000</u>
 Total Net Assets	 <u>1,293,448</u>	 <u>1,345,355</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,752,543</u>	 <u>\$ 2,191,575</u>

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

**BRIGHTSTONE, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
<b>Changes in Unrestricted Net Assets</b>		
Revenues		
Contributions	\$ 176,541	\$ 163,275
Special events	279,843	246,920
Tuition	197,431	163,955
Fees	20,089	19,552
Product sales (net of direct costs of \$20,390 and \$19,587 for 2009 and 2008, respectively)	23,392	19,318
Interest income	12,485	24,914
	<u>709,781</u>	<u>637,934</u>
Total Unrestricted Revenues		
	<u>68,697</u>	<u>59,660</u>
Net assets released from restrictions		
	<u>778,478</u>	<u>697,594</u>
Total Unrestricted Revenues and Reclassifications		
Functional Expenses		
Program services	483,957	450,644
Supporting services		
Fundraising		
Special events direct costs	72,029	52,126
General	104,179	104,518
	<u>176,208</u>	<u>156,644</u>
Management and general	170,773	199,516
	<u>830,938</u>	<u>806,804</u>
Total Unrestricted Functional Expenses		
	<u>(52,460)</u>	<u>(109,210)</u>
Decrease in unrestricted net assets		
<b>Changes in Temporarily Restricted Net Assets</b>		
Supplies, activities and training contributions	69,250	74,660
Net assets released from restrictions	(68,697)	(59,660)
	<u>553</u>	<u>15,000</u>
Increase in temporarily restricted net assets		
DECREASE IN NET ASSETS	(51,907)	(94,210)
NET ASSETS - BEGINNING OF YEAR	<u>1,345,355</u>	<u>1,439,565</u>
NET ASSETS - END OF YEAR	<u>\$ 1,293,448</u>	<u>\$ 1,345,355</u>

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

**BRIGHTSTONE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2009**

	Program Services	<u>Supporting Services</u>		Total
		Fund- raising	Management and General	
Compensation and related costs				
Compensation	\$ 270,028	\$ 65,735	\$ 121,505	\$ 457,268
Payroll taxes and other benefits	49,554	7,020	15,155	71,729
	<u>319,582</u>	<u>72,755</u>	<u>136,660</u>	<u>528,997</u>
Depreciation	54,061	1,843	5,529	61,433
Facilities	33,950	1,157	3,473	38,580
Interest	32,919	1,122	3,367	37,408
Community relations and development	-	20,893	-	20,893
Office	-	1,902	17,115	19,017
Transportation	14,757	-	-	14,757
Scholarships	11,718	-	-	11,718
Teaching supplies and materials	7,891	-	-	7,891
Lunches	7,201	-	-	7,201
Professional services	-	-	4,538	4,538
Credit card fees	-	4,460	-	4,460
Student activities	1,653	-	-	1,653
Training	225	47	91	363
	<u>483,957</u>	<u>104,179</u>	<u>170,773</u>	<u>758,909</u>
Total expenses before special events direct costs				
Donated items	-	34,563	-	34,563
Special events direct cost	-	37,466	-	37,466
	<u>-</u>	<u>72,029</u>	<u>-</u>	<u>72,029</u>
Total special events direct costs				
Total expenses	<u>\$ 483,957</u>	<u>\$ 176,208</u>	<u>\$ 170,773</u>	<u>\$ 830,938</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	<u>Supporting Services</u>		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>
Depreciation	31,470	1,971	11,932	45,373
Facilities	24,830	776	13,191	38,797
Interest	31,423	982	16,693	49,098
Community relations and development	-	13,053	-	13,053
Office	-	1,932	17,387	19,319
Transportation	17,499	-	-	17,499
Scholarships	20,180	-	-	20,180
Teaching supplies and materials	7,213	-	-	7,213
Lunches	7,816	-	-	7,816
Professional services	-	-	4,211	4,211
Credit card fees	-	2,526	-	2,526
Student activities	2,657	-	-	2,657
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.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease in net assets	\$ (51,907)	\$ (94,210)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities		
Depreciation	61,433	45,373
Loss on disposal of property and equipment	158	-
Contributions of investments	(9,451)	-
Contributions of property and equipment	(1,884)	(9,500)
Decrease (increase) in		
Contributions receivable	(155)	22,187
Accounts receivable	(1,237)	(2,124)
Prepaid expenses	2,303	(4,285)
Increase (decrease) in		
Payroll taxes payable	2,353	289
Accounts payable	2,175	(9,039)
Deferred revenue	18,892	58
	<u>22,680</u>	<u>(51,251)</u>
Net Cash Provided (Used) By Operating Activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for property and equipment	(17,235)	(66,026)
Reinvestment in certificates of deposit	-	(12,085)
Proceeds from maturity of certificate of deposit	149,248	114,647
	<u>132,013</u>	<u>36,536</u>
Net Cash Provided By Investing Activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on note payable	(410,545)	(17,720)
	<u>(410,545)</u>	<u>(17,720)</u>
Net Cash Used By Financing Activities		
Net Decrease in Cash and Cash Equivalents	(255,852)	(32,435)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>533,714</u>	<u>566,149</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 277,862</u>	<u>\$ 533,714</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid during the year	<u>\$ 37,408</u>	<u>\$ 49,098</u>

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



**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

**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, 2009 AND 2008**

**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, 2009 and 2008.

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 and Deferred Revenues

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.

Revenue from product sales is substantially recognized when sold.

Contributions received in advance for the Organization's Writer's Night fundraiser are recorded as deferred revenue until after the event has been held.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

**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.

Income Taxes

The Organization is 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.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 3 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable are summarized as follows:

	<b>2009</b>	<b>2008</b>
Receivable in less than one year	\$ 15,538	\$ 10,383
Receivable in one to five years	<u>          -</u>	<u>      5,000</u>
Total unconditional promises to give	<u>\$ 15,538</u>	<u>\$ 15,383</u>

**NOTE 4 - INVESTMENTS**

Investments at December 31, 2009 represent equity securities donated to the Organization during 2009. The carrying value of the securities is the same as the market value. There were no realized or unrealized gains or losses during 2009 or 2008.

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<b>2009</b>	<b>2008</b>
Land	\$ 315,000	\$ 315,000
Building and improvements	1,043,346	1,043,346
Transportation vehicles	125,030	125,030
Office equipment	16,515	18,108
Facility equipment	20,104	10,727
Classroom equipment	14,682	6,815
Furniture	<u>      8,501</u>	<u>      6,626</u>
	1,543,178	1,525,652
Accumulated depreciation	<u>(205,994)</u>	<u>(145,996)</u>
	<u>\$ 1,337,184</u>	<u>\$ 1,379,656</u>

Depreciation expense was \$61,433 and \$45,373 for 2009 and 2008, respectively.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 6 - LONG-TERM NOTE PAYABLE**

The Organization has a note payable with Tennessee Commerce Bank to finance the Organization's facility. A balance of \$421,032 and \$831,577 was outstanding at December 31, 2009 and 2008, respectively. The loan calls for an interest rate of 6% with monthly principal and interest payments of \$2,873 (\$5,568 prior to June 2009), 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,

2010	\$ 4,711
2011	<u>416,321</u>
 Total	 <u>\$ 421,032</u>

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

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

	2009	2008
Therapy	\$ 15,302	\$ -
Supplies and equipment	<u>251</u>	<u>15,000</u>
	<u>\$ 15,553</u>	<u>\$ 15,000</u>

There were no permanently restricted net assets as of December 31, 2009 and 2008.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 8 - 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, 2009 and 2008.

	<b>2009</b>	<b>2008</b>
Included in contributions/expenses		
Rent	\$ 3,720	\$ 3,500
Supplies and services	7,382	8,355
Included in special events/expenses		
Prizes, fees and materials	34,563	17,668
Included in contributions/assets		
Equipment	1,884	-
Bus	<u>-</u>	<u>9,500</u>
	<u>\$ 47,549</u>	<u>\$ 39,023</u>

**NOTE 9 - 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 8.