

**BRIGHTSTONE, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED DECEMBER 31, 2011 AND 2010**

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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, 2011 and 2010 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, 2011 and 2010, 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 9, 2012

**BRIGHTSTONE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2011 AND 2010**

**ASSETS**

	<b>2011</b>	<b>2010</b>
Cash	\$ 409,453	\$ 438,997
Contributions receivable, net	1,759	1,263
Investments	4,110	-
Accounts receivable, net	492	2,366
Prepaid expenses	6,252	5,765
Property and equipment, net	<u>1,252,829</u>	<u>1,293,805</u>
 <b>TOTAL ASSETS</b>	 <b><u>\$ 1,674,895</u></b>	 <b><u>\$ 1,742,196</u></b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Payroll taxes payable	\$ 6,169	\$ 4,973
Accrued interest	1,466	-
Accounts payable	5,837	4,521
Deferred revenues	3,982	27,875
Note payable	<u>402,233</u>	<u>412,006</u>
 Total Liabilities	 <u>419,687</u>	 <u>449,375</u>

**NET ASSETS**

Unrestricted	1,255,208	1,285,298
Temporarily restricted	<u>-</u>	<u>7,523</u>
 Total Net Assets	 <u>1,255,208</u>	 <u>1,292,821</u>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,674,895</u></b>	<b><u>\$ 1,742,196</u></b>
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The accompanying notes are an integral part of these financial statements.

**BRIGHTSTONE, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
<b>Changes in Unrestricted Net Assets</b>		
Revenues		
Contributions	\$ 183,287	\$ 179,955
Special events	320,367	275,007
Tuition	253,063	238,822
Fees	19,437	18,905
Product sales (net of direct costs of \$18,247 and \$17,614 for 2011 and 2010, respectively)	31,384	27,067
Interest income	3,073	5,566
	<u>810,611</u>	<u>745,322</u>
Total Unrestricted Revenues		
Net assets released from restrictions	<u>77,023</u>	<u>59,888</u>
Total Unrestricted Revenues and Reclassifications	<u>887,634</u>	<u>805,210</u>
Functional Expenses		
Program services	<u>512,317</u>	<u>471,620</u>
Supporting services		
Fundraising		
Special events direct costs	83,127	66,577
General	167,221	105,156
	<u>250,348</u>	<u>171,733</u>
Management and general	<u>155,059</u>	<u>154,454</u>
Total Unrestricted Functional Expenses	<u>917,724</u>	<u>797,807</u>
(Decrease) increase in unrestricted net assets	<u>(30,090)</u>	<u>7,403</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions	69,500	51,858
Net assets released from restrictions	<u>(77,023)</u>	<u>(59,888)</u>
Decrease in temporarily restricted net assets	<u>(7,523)</u>	<u>(8,030)</u>
DECREASE IN NET ASSETS	(37,613)	(627)
NET ASSETS - BEGINNING OF YEAR	<u>1,292,821</u>	<u>1,293,448</u>
NET ASSETS - END OF YEAR	<u>\$ 1,255,208</u>	<u>\$ 1,292,821</u>

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

**BRIGHTSTONE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2011**

	Program Services	Supporting Services		Total
		Fund- raising	Management and General	
Compensation and related costs				
Compensation	\$ 299,876	\$ 75,223	\$ 108,959	\$ 484,058
Payroll taxes and other benefits	52,346	8,841	14,305	75,492
	<u>352,222</u>	<u>84,064</u>	<u>123,264</u>	<u>559,550</u>
Depreciation	37,183	1,355	4,432	42,970
Community relations and development	-	37,405	-	37,405
Facilities	31,932	1,088	3,266	36,286
Capital campaign	-	31,719	-	31,719
Scholarships	30,387	-	-	30,387
Interest	20,951	714	2,143	23,808
Transportation	19,502	-	-	19,502
Office	624	1,973	15,720	18,317
Lunches	8,711	-	-	8,711
Banking fees	-	8,683	-	8,683
Student activities	5,045	-	-	5,045
Professional services	-	-	5,038	5,038
Teaching supplies and materials	4,385	-	-	4,385
Training	350	220	1,196	1,766
Bad debt	1,025	-	-	1,025
	<u>512,317</u>	<u>167,221</u>	<u>155,059</u>	<u>834,597</u>
Total expenses before special events direct costs				
Donated items	-	64,800	-	64,800
Special events direct cost	-	18,327	-	18,327
	<u>-</u>	<u>83,127</u>	<u>-</u>	<u>83,127</u>
Total special events direct costs				
Total expenses	<u>\$ 512,317</u>	<u>\$ 250,348</u>	<u>\$ 155,059</u>	<u>\$ 917,724</u>

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

**BRIGHTSTONE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2010**

	Program Services	Supporting Services		Total
		Fund- raising	Management and General	
Compensation and related costs				
Compensation	\$ 277,247	\$ 65,132	\$ 107,614	\$ 449,993
Payroll taxes and other benefits	44,217	6,414	13,701	64,332
	<u>321,464</u>	<u>71,546</u>	<u>121,315</u>	<u>514,325</u>
Depreciation	40,808	1,289	4,242	46,339
Facilities	28,440	969	2,909	32,318
Interest	22,398	763	2,291	25,452
Community relations and development	-	23,849	-	23,849
Office	-	1,916	17,246	19,162
Transportation	16,150	-	-	16,150
Scholarships	17,834	-	-	17,834
Teaching supplies and materials	6,830	-	-	6,830
Bad debt	5,100	-	-	5,100
Lunches	7,908	-	-	7,908
Professional services	-	-	6,029	6,029
Credit card fees	-	4,604	-	4,604
Student activities	3,641	-	-	3,641
Training	1,047	220	422	1,689
	<u>471,620</u>	<u>105,156</u>	<u>154,454</u>	<u>731,230</u>
Total expenses before special events direct costs				
Donated items	-	37,161	-	37,161
Special events direct cost	-	29,416	-	29,416
	<u>-</u>	<u>66,577</u>	<u>-</u>	<u>66,577</u>
Total special events direct costs				
Total expenses	<u>\$ 471,620</u>	<u>\$ 171,733</u>	<u>\$ 154,454</u>	<u>\$ 797,807</u>

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

**BRIGHTSTONE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease in net assets	\$ (37,613)	\$ (627)
Adjustments to reconcile decrease in net assets to net cash (used by) provided by operating activities		
Depreciation	42,970	46,339
Contributions of investments	(4,110)	-
Contributions of property and equipment	-	(2,960)
Decrease (increase) in		
Contributions receivable	(496)	14,275
Accounts receivable	1,874	1,671
Prepaid expenses	(487)	316
Increase (decrease) in		
Payroll taxes payable	1,196	1,323
Accrued interest	1,466	-
Accounts payable	1,316	858
Deferred revenues	(23,893)	(2,875)
	<u>(17,777)</u>	<u>58,320</u>
Net Cash (Used By) Provided By Operating Activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for property and equipment	(1,994)	-
Proceeds from sale of investments	-	9,451
Proceeds from maturity of certificates of deposit	-	102,390
	<u>(1,994)</u>	<u>111,841</u>
Net Cash (Used By) Provided By Investing Activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on note payable	(9,773)	(9,026)
	<u>(9,773)</u>	<u>(9,026)</u>
Net Cash Used By Financing Activities		
Net (Decrease) Increase in Cash	(29,544)	161,135
CASH - BEGINNING OF YEAR	<u>438,997</u>	<u>277,862</u>
CASH - END OF YEAR	<u>\$ 409,453</u>	<u>\$ 438,997</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid during the year	<u>\$ 22,342</u>	<u>\$ 25,452</u>

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



**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

**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

Cash includes checking and money market deposits held by financial institutions.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

**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, 2011. The allowance totaled \$5,000 as of December 31, 2010.

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 the year of the event.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

**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 and are considered level 1 securities.

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 federal and state income taxes under Internal Revenue Code Section 501 (c) (3) and the tax laws of the state of Tennessee.

Accounting principles generally accepted in the United States of America require the Organization to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The management has analyzed the tax positions taken by the Organization and has concluded that as of December 31, 2011, no uncertain positions are taken or are expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

**NOTE 3 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable are summarized as follows:

	<u>2011</u>	<u>2010</u>
Receivable in less than one year	\$ 1,759	\$ 6,263
Receivable in one to five years	<u>-</u>	<u>-</u>
	1,759	6,263
Less allowance for doubtful accounts	<u>-</u>	<u>(5,000)</u>
Total unconditional promises to give	<u>\$ 1,759</u>	<u>\$ 1,263</u>

**NOTE 4 - INVESTMENTS**

Investments at December 31, 2011 represent equity securities donated to the Organization during 2011 and not yet sold as of year-end. The carrying value of the securities is the same as the market value. Realized losses totaled \$27 and \$100 during 2011 and 2010, respectively.

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 315,000	\$ 315,000
Building and improvements	1,043,346	1,043,346
Transportation vehicles	127,280	127,280
Office equipment	17,116	17,116
Facility equipment	22,098	20,104
Classroom equipment	14,682	14,682
Furniture	<u>8,501</u>	<u>8,501</u>
	1,548,023	1,546,029
Accumulated depreciation	<u>(295,194)</u>	<u>(252,224)</u>
	<u>\$ 1,252,829</u>	<u>\$ 1,293,805</u>

Depreciation expense was \$42,970 and \$46,339 for 2011 and 2010, respectively.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

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

The Organization refinanced its facility debt with a local bank on July 13, 2011. The amount financed totaled \$407,000 and calls for an interest rate of 5.25% with monthly principal and interest payments of \$2,760 on a 25-year amortization with one final balloon payment due July 13, 2016. The loan is collateralized by the real property being financed.

Scheduled repayments on the note payable are as follows:

Year Ending December 31,

2012	\$ 12,301
2013	12,962
2014	13,660
2015	14,394
2016	<u>348,916</u>
	<u>\$ 402,233</u>

**NOTE 7 - 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, 2011 and 2010.

	<b>2011</b>	<b>2010</b>
Included in contributions/expenses		
Rent	\$ -	\$ 1,600
Supplies and services	16,728	10,749
Included in special events/expenses		
Prizes, fees and materials	64,800	37,161
Included in contributions/assets		
Equipment	-	710
Transportation	-	<u>2,250</u>
	<u>\$ 81,528</u>	<u>\$ 52,470</u>

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

**NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS**

There were no temporarily restricted net assets at December 31, 2011. The temporary restrictions on net assets at December 31, 2010 are attributable to therapy programming. There were no permanently restricted net assets as of December 31, 2011 and 2010.

**NOTE 9 - RETIREMENT PLAN**

Effective January 1, 2012, the Organization began offering a 403(b) retirement plan for all full time employees. The plan allows for discretionary matching of employee contributions by the Organization.

**NOTE 10 - EVALUATION OF SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through April 9, 2012 which is the date the financial statements were available to be issued.