

**BRIGHTSTONE, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2010 AND 2009**

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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, 2010 and 2009 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, 2010 and 2009, 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 18, 2011

BRIGHTSTONE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

ASSETS

	2010	2009
Cash and cash equivalents	\$ 438,997	\$ 277,862
Certificates of deposit	-	102,390
Contributions receivable, net	1,263	15,538
Investments	-	9,451
Accounts receivable, net	2,366	4,037
Prepaid expenses	5,765	6,081
Property and equipment, net	<u>1,293,805</u>	<u>1,337,184</u>
 TOTAL ASSETS	 <u>\$ 1,742,196</u>	 <u>\$ 1,752,543</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Payroll taxes payable	\$ 4,973	\$ 3,650
Accounts payable	4,521	3,663
Deferred revenue	27,875	30,750
Note payable	<u>412,006</u>	<u>421,032</u>
 Total Liabilities	 <u>449,375</u>	 <u>459,095</u>
 NET ASSETS		
Unrestricted	1,285,298	1,277,895
Temporarily restricted	<u>7,523</u>	<u>15,553</u>
 Total Net Assets	 <u>1,292,821</u>	 <u>1,293,448</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,742,196</u>	 <u>\$ 1,752,543</u>

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

BRIGHTSTONE, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Changes in Unrestricted Net Assets		
Revenues		
Contributions	\$ 179,955	\$ 176,541
Special events	275,007	279,843
Tuition	238,822	197,431
Fees	18,905	20,089
Product sales (net of direct costs of \$17,614 and \$20,390 for 2010 and 2009, respectively)	27,067	23,392
Interest income	5,566	12,485
	<u>745,322</u>	<u>709,781</u>
 Total Unrestricted Revenues	 745,322	 709,781
 Net assets released from restrictions	 <u>59,888</u>	 <u>68,697</u>
	 <u>805,210</u>	 <u>778,478</u>
 Total Unrestricted Revenues and Reclassifications	 <u>805,210</u>	 <u>778,478</u>
 Functional Expenses		
Program services	<u>471,620</u>	<u>483,957</u>
Supporting services		
Fundraising		
Special events direct costs	66,577	72,029
General	105,156	104,179
	<u>171,733</u>	<u>176,208</u>
 Management and general	 <u>154,454</u>	 <u>170,773</u>
 Total Unrestricted Functional Expenses	 <u>797,807</u>	 <u>830,938</u>
 Increase (decrease) in unrestricted net assets	 <u>7,403</u>	 <u>(52,460)</u>
 Changes in Temporarily Restricted Net Assets		
Contributions	51,858	69,250
Net assets released from restrictions	<u>(59,888)</u>	<u>(68,697)</u>
 (Decrease) increase in temporarily restricted net assets	 <u>(8,030)</u>	 <u>553</u>
 DECREASE IN NET ASSETS	 (627)	 (51,907)
 NET ASSETS - BEGINNING OF YEAR	 <u>1,293,448</u>	 <u>1,345,355</u>
 NET ASSETS - END OF YEAR	 <u>\$ 1,292,821</u>	 <u>\$ 1,293,448</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	<u>Supporting Services</u>		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.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2009

	Program Services	Supporting Services		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.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (627)	\$ (51,907)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Depreciation	46,339	61,433
Loss on disposal of property and equipment	-	158
Contributions of investments	-	(9,451)
Contributions of property and equipment	(2,960)	(1,884)
Decrease (increase) in		
Contributions receivable	14,275	(155)
Accounts receivable	1,671	(1,237)
Prepaid expenses	316	2,303
Increase (decrease) in		
Payroll taxes payable	1,323	2,353
Accounts payable	858	2,175
Deferred revenue	(2,875)	18,892
	<u>58,320</u>	<u>22,680</u>
Net Cash Provided By Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property and equipment	-	(17,235)
Proceeds from sale of investments	9,451	-
Proceeds from maturity of certificates of deposit	102,390	149,248
	<u>111,841</u>	<u>132,013</u>
Net Cash Provided By Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(9,026)	(410,545)
	<u>(9,026)</u>	<u>(410,545)</u>
Net Cash Used By Financing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	161,135	(255,852)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>277,862</u>	<u>533,714</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 438,997</u>	<u>\$ 277,862</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid during the year	<u>\$ 25,452</u>	<u>\$ 37,408</u>

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

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

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, 2010 AND 2009

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. The allowance totaled \$5,000 as of December 31, 2010. No allowance was deemed necessary as of December 31, 2009.

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, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Organization's policy is to liquidate investments as soon as 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.

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 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 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows:

	2010	2009
Receivable in less than one year	\$ 6,263	\$ 15,538
Receivable in one to five years	<u> -</u>	<u> -</u>
Less allowance for doubtful accounts	<u>(5,000)</u>	<u> -</u>
Total unconditional promises to give	<u>\$ 1,263</u>	<u>\$ 15,538</u>

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

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. Realized losses totaled \$100 during 2010. There were no realized or unrealized gains or losses in 2009.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2010	2009
Land	\$ 315,000	\$ 315,000
Building and improvements	1,043,346	1,043,346
Transportation vehicles	127,280	125,030
Office equipment	17,116	16,515
Facility equipment	20,104	20,104
Classroom equipment	14,682	14,682
Furniture	<u>8,501</u>	<u>8,501</u>
	1,546,029	1,543,178
Accumulated depreciation	<u>(252,224)</u>	<u>(205,994)</u>
	<u>\$ 1,293,805</u>	<u>\$ 1,337,184</u>

Depreciation expense was \$46,339 and \$61,433 for 2010 and 2009, respectively.

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 \$412,006 and \$421,032 was outstanding at December 31, 2010 and 2009, respectively. The loan calls for an interest rate of 6% with monthly principal and interest payments of \$2,873 on 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,

2011	<u>\$ 412,006</u>
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BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

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

	2010	2009
Therapy	\$ 7,523	\$ 15,302
Supplies and equipment	<u> -</u>	<u> 251</u>
	<u>\$ 7,523</u>	<u>\$ 15,553</u>

There were no permanently restricted net assets as of December 31, 2010 and 2009.

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, 2010 and 2009.

	2010	2009
Included in contributions/expenses		
Rent	\$ 1,600	\$ 3,720
Supplies and services	10,749	7,382
Included in special events/expenses		
Prizes, fees and materials	37,161	34,563
Included in contributions/assets		
Equipment	710	1,884
Transportation	<u>2,250</u>	<u> -</u>
	<u>\$ 52,470</u>	<u>\$ 47,549</u>

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 9 - LEASING ARRANGEMENTS

The Organization had rent-free space in two retail stores during 2009. During 2010, these informal month-to-month agreements ended. These in-kind contribution amounts are included in unrestricted revenues and expenses as described above in Note 8.

NOTE 10 - EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through March 18, 2011 which is the date the financial statements were available to be issued.