BRIGHTSTONE, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2012 AND 2011

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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 financial statements of BrightStone, Inc. (a Tennessee not-for-profit corporation, the "Organization"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blankenship CPA Group, PLLC

April 19, 2013

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BRIGHTSTONE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
Cash	$ 656,647	$ 409,453
Contributions receivable, net	9,464	1,759
Investments	-	4,110
Accounts receivable, net	1,662	492
Prepaid expenses	5,280	6,252
Property and equipment, net	1,220,490	1,252,829
TOTAL ASSETS	$ 1,893,543	$ 1,674,895

LIABILITIES AND NET ASSETS

	2012	2011
LIABILITIES		
Payroll taxes payable	$ 2,006	$ 6,169
Accrued interest	1,466	1,466
Accounts payable	6,179	5,837
Deferred revenues	5,367	3,982
Note payable	390,277	402,233
Total Liabilities	405,295	419,687
NET ASSETS		
Unrestricted	1,476,198	1,255,208
Temporarily restricted	12,050	-
Total Net Assets	1,488,248	1,255,208
TOTAL LIABILITIES AND NET ASSETS	$ 1,893,543	$ 1,674,895

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

BRIGHTSTONE, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Changes in Unrestricted Net Assets		
Revenues		
Contributions	$ 382,125	$ 183,287
Special events and fundraising	356,633	304,400
Tuition	257,682	253,063
Fees	24,471	19,437
Product sales (net of direct costs of $24,018 and $18,247 for 2012 and 2011, respectively)	29,755	31,384
Interest income	695	3,073
Total Unrestricted Revenues	1,051,361	794,644
Net assets released from restrictions	60,272	77,023
Total Unrestricted Revenues and Reclassifications	1,111,633	871,667
Functional Expenses		
Program services	516,821	512,317
Supporting services		
Fundraising		
Special events direct costs	84,931	67,160
General	145,747	167,221
	230,678	234,381
Management and general	143,144	155,059
Total Unrestricted Functional Expenses	890,643	901,757
Increase (decrease) in unrestricted net assets	220,990	(30,090)
Changes in Temporarily Restricted Net Assets		
Contributions	72,322	69,500
Net assets released from restrictions	(60,272)	(77,023)
Increase (decrease) in temporarily restricted net assets	12,050	(7,523)
INCREASE (DECREASE) IN NET ASSETS	233,040	(37,613)
NET ASSETS - BEGINNING OF YEAR	1,255,208	1,292,821
NET ASSETS - END OF YEAR	$ 1,488,248	$ 1,255,208

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

BRIGHTSTONE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2012

		Supporting Services		
	Program Services	Fund-raising	Management and General	Total
Compensation and related costs				
Compensation	$ 315,549	$ 85,132	$ 101,040	$ 501,721
Payroll taxes and other benefits	56,467	8,901	12,411	77,779
	372,016	94,033	113,451	579,500
Community relations and development	-	40,651	-	40,651
Depreciation	31,522	1,098	3,724	36,344
Facilities	29,025	989	2,968	32,982
Scholarships	23,817	-	-	23,817
Transportation	22,458	-	-	22,458
Interest	18,629	635	1,905	21,169
Office	927	1,853	15,750	18,530
Lunches	9,491	-	-	9,491
Teaching supplies and materials	5,854	-	-	5,854
Banking fees	-	5,815	-	5,815
Professional services	-	-	5,038	5,038
Student activities	3,082	-	-	3,082
Training	-	350	308	658
Capital campaign	-	323	-	323
Bad debt	-	-	-	-
Total expenses before special events direct costs	516,821	145,747	143,144	805,712
Donated items	-	34,602	-	34,602
Special events direct costs	-	50,329	-	50,329
Total special events direct costs	-	84,931	-	84,931
Total functional expenses	$ 516,821	$ 230,678	$ 143,144	$ 890,643

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: Fund-raising	Supporting Services: Management and General	Total
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
	352,222	84,064	123,264	559,550
Community relations and development	-	37,405	-	37,405
Depreciation	37,183	1,355	4,432	42,970
Facilities	31,932	1,088	3,266	36,286
Scholarships	30,387	-	-	30,387
Transportation	19,502	-	-	19,502
Interest	20,951	714	2,143	23,808
Office	624	1,973	15,720	18,317
Lunches	8,711	-	-	8,711
Teaching supplies and materials	4,385	-	-	4,385
Banking fees	-	8,683	-	8,683
Professional services	-	-	5,038	5,038
Student activities	5,045	-	-	5,045
Training	350	220	1,196	1,766
Capital campaign	-	31,719	-	31,719
Bad debt	1,025	-	-	1,025
Total expenses before special events direct costs	512,317	167,221	155,059	834,597
Donated items	-	32,866	-	32,866
Special events direct costs	-	34,294	-	34,294
Total special events direct costs	-	67,160	-	67,160
Total functional expenses	$ 512,317	$ 234,381	$ 155,059	$ 901,757

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

BRIGHTSTONE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 233,040	$ (37,613)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation	36,344	42,970
Contributions of investments	-	(4,110)
Decrease (increase) in		
Contributions receivable	(7,705)	(496)
Accounts receivable	(1,170)	1,874
Prepaid expenses	972	(487)
Increase (decrease) in		
Payroll taxes payable	(4,163)	1,196
Accrued interest	-	1,466
Accounts payable	342	1,316
Deferred revenues	1,385	(23,893)
Net Cash Provided By (Used In) Operating Activities	259,045	(17,777)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property and equipment	(4,005)	(1,994)
Proceeds from sale of investments	4,110	-
Net Cash Provided By (Used In) Investing Activities	105	(1,994)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(11,956)	(9,773)
Net Cash Used In Financing Activities	(11,956)	(9,773)
Net Increase (Decrease) in Cash	247,194	(29,544)
CASH - BEGINNING OF YEAR	409,453	438,997
CASH - END OF YEAR	$ 656,647	$ 409,453
SUPPLEMENTAL DISCLOSURES		
Interest paid during the year	$ 21,169	$ 22,342

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

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.

Reclassifications

Certain reclassifications have been made to the 2011 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

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.

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 and changes in net assets 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.

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.

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 and changes in net assets 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, 2012, 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. The Organization is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2009.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are considered current since they are expected to be collected within one year. No allowance for uncollectible receivables was deemed necessary as of December 31, 2012 and 2011.

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 $461 and $27 during 2012 and 2011, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2012	2011
Land	$ 315,000	$ 315,000
Building and improvements	1,043,346	1,043,346
Transportation vehicles	128,411	127,280
Office equipment	17,116	17,116
Facility equipment	22,098	22,098
Classroom equipment	14,682	14,682
Furniture	11,374	8,501
	1,552,027	1,548,023
Accumulated depreciation	(331,537)	(295,194)
	$ 1,220,490	$ 1,252,829

Depreciation expense was $36,344 and $42,970 for 2012 and 2011, respectively.

NOTE 6 - LONG-TERM NOTE PAYABLE

The Organization has a note payable with a local bank to finance its facility. The note calls for an interest rate of 5.25% with monthly principal and interest payments of $2,760 on a 20-year amortization with one final balloon payment due July 13, 2016. The loan is collateralized by the real property being financed.

Scheduled principal repayments on the note payable are as follows:

Year Ending December 31,	
2013	$ 12,944
2014	13,640
2015	14,374
2016	349,319
	$ 390,277

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:

	2012	2011
Included in contributions/expenses		
Supplies and services	$ 14,702	$ 16,728
Included in special events/expenses		
Prizes, fees and materials	34,602	32,866
	$ 49,304	$ 49,594

Additionally, in-kind contributions for auction items were received and recorded as assets that totaled $12,782 and $15,967 for 2012 and 2011, respectively. These assets were subsequently sold during fundraising events with the proceeds recorded in special events income.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

The temporary restrictions on net assets at December 31, 2012 are primarily attributable to unspent grants received for wellness therapy programming and transportation/safety. There were no temporarily restricted net assets at December 31, 2011. There were no permanently restricted net assets as of December 31, 2012 and 2011.

NOTE 9 - RETIREMENT PLAN

Effective January 1, 2012, the Organization began offering a 403(b) retirement plan for all full time and permanent part time employees. Employees are 100% vested in all employee contributions. The plan allows for discretionary matching of employee contributions by the Organization. The Organization made no discretionary match during 2012.

NOTE 10 - EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through April 19, 2013 which is the date the financial statements were available to be issued.