BRIGHTSTONE, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2017 AND 2016

BRIGHTSTONE, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2017 AND 2016

TABLE OF CONTENTS

BLANKENSHIP CPA GROUP, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
BrightStone, Inc.

Report on the Financial Statements
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, 2017 and 2016, 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, 2017 and 2016, 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
March 19, 2018

215 WARD CIRCLE • BRENTWOOD, TN 37027-5032 • 615-373-3771 • FAX 615-377-4915

BRIGHTSTONE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS

	2017	2016
Cash	$ 938,742	$ 996,046
Contributions receivable	2,139,954	197,393
Accounts receivable	2,836	7,475
Prepaid expenses	1,820	2,048
Investments	24,888	-
Property held for development	2,893,941	2,860,128
Property and equipment, net	1,343,500	1,268,034
TOTAL ASSETS	$ 7,345,681	$ 5,331,124

LIABILITIES AND NET ASSETS

	2017	2016
LIABILITIES		
Payroll liabilities	$ 3,215	$ 3,362
Accrued interest	5,697	5,697
Accounts payable	30,781	20,088
Deferred revenues	7,059	3,276
Note payable	1,852,927	3,152,150
Total Liabilities	1,899,679	3,184,573
NET ASSETS		
Unrestricted		
Undesignated	2,792,605	1,245,948
Designated - Ferrell Home	213,572	209,778
Total Unrestricted	3,006,177	1,455,726
Temporarily restricted	2,439,825	690,825
Total Net Assets	5,446,002	2,146,551
TOTAL LIABILITIES AND NET ASSETS	$ 7,345,681	$ 5,331,124

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, 2017 AND 2016

	2017	2016
Changes in Unrestricted Net Assets		
Revenues		
Contributions	$ 482,833	$ 303,951
Special events (net of direct benefits to donors of $56,551 and $60,326 for 2017 and 2016, respectively)	295,148	281,898
Tuition	316,666	306,999
Fees	30,002	30,191
Product sales (net of direct costs of $18,660 and $20,230 for 2017 and 2016, respectively)	24,875	17,873
Other income	32,900	21,400
Interest income	1,052	701
Total Revenues	1,183,476	963,013
Net assets released from restrictions	1,711,546	248,264
Total Revenues and Reclassifications	2,895,022	1,211,277
Functional Expenses		
Program services	666,549	626,924
Supporting services		
Fundraising		
Special events direct costs	30,410	6,686
General	310,437	247,916
	340,847	254,602
Management and general	160,686	159,683
Campus development	176,489	164,964
Total Functional Expenses	1,344,571	1,206,173
Increase in unrestricted net assets	1,550,451	5,104
Changes in Temporarily Restricted Net Assets		
Contributions	3,460,546	273,118
Net assets released from restrictions	(1,711,546)	(248,264)
Increase in temporarily restricted net assets	1,749,000	24,854
INCREASE IN NET ASSETS	3,299,451	29,958
NET ASSETS - BEGINNING OF YEAR	2,146,551	2,116,593
NET ASSETS - END OF YEAR	$ 5,446,002	$ 2,146,551

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

BRIGHTSTONE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services	Supporting Services: Fund-raising	Supporting Services: Management and General	Campus Development	Total
Compensation and related costs					
Compensation	$ 409,474	$ 147,939	$ 113,867	$ -	$ 671,280
Payroll taxes and other benefits	98,773	28,687	22,140	-	149,600
	508,247	176,626	136,007	-	820,880
Facilities	37,238	2,751	2,327	83,480	125,796
Interest	14,653	1,082	916	88,495	105,146
Professional services	-	49,849	6,520	-	56,369
Depreciation	36,662	3,150	2,876	4,514	47,202
Community relations and development	-	42,017	-	-	42,017
Scholarships	29,055	-	-	-	29,055
Office	2,612	8,716	11,473	-	22,801
Transportation	16,918	-	-	-	16,918
Banking fees	-	14,737	-	-	14,737
Lunches	11,740	-	-	-	11,740
Capital campaign and development	-	10,585	-	-	10,585
Teaching supplies and materials	4,842	-	-	-	4,842
Student activities	3,510	-	-	-	3,510
Training	1,072	899	567	-	2,538
Bad debt	-	25	-	-	25
Total expenses before special events direct costs	666,549	310,437	160,686	176,489	1,314,161
Special events direct costs	-	63,487	-	-	63,487
Donated items for special events	-	23,474	-	-	23,474
Less direct benefits to donors	-	(56,551)	-	-	(56,551)
Total special events direct costs	-	30,410	-	-	30,410
Total functional expenses	$ 666,549	$ 340,847	$ 160,686	$ 176,489	$ 1,344,571

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

BRIGHTSTONE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

		Supporting Services			
	Program Services	Fund-raising	Management and General	Campus Development	Total
Compensation and related costs					
Compensation	$ 394,835	$ 126,173	$ 113,896	$ -	$ 634,904
Payroll taxes and other benefits	83,590	19,482	22,600	-	125,672
	478,425	145,655	136,496	-	760,576
Facilities	38,817	2,867	2,426	73,409	117,519
Interest	14,901	1,101	931	88,866	105,799
Professional services	-	22,006	6,168	-	28,174
Depreciation	26,375	2,873	2,588	2,689	34,525
Community relations and development	-	46,960	-	-	46,960
Scholarships	29,465	-	-	-	29,465
Office	2,011	7,856	10,056	-	19,923
Transportation	15,637	326	-	-	15,963
Banking fees	-	9,592	-	-	9,592
Lunches	11,020	-	-	-	11,020
Capital campaign and development	-	7,880	-	-	7,880
Teaching supplies and materials	5,417	-	-	-	5,417
Student activities	3,645	-	-	-	3,645
Training	1,211	800	457	-	2,468
Bad debt	-	-	561	-	561
Total expenses before special events direct costs	626,924	247,916	159,683	164,964	1,199,487
Special events direct costs	-	50,656	-	-	50,656
Donated items for special events	-	16,356	-	-	16,356
Less direct benefits to donors	-	(60,326)	-	-	(60,326)
Total special events direct costs	-	6,686	-	-	6,686
Total functional expenses	$ 626,924	$ 254,602	$ 159,683	$ 164,964	$ 1,206,173

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

BRIGHTSTONE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 3,299,451	$ 29,958
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	47,202	34,525
Amortization of loan fees	777	777
Donated property and equipment	(18,932)	-
Donated services for property held for development	(33,813)	-
Donated investments	(1,194,362)	(47,332)
Decrease (increase) in operating assets		
Contributions receivable	(1,942,561)	194,501
Accounts receivable	4,639	181
Prepaid expenses	228	4,838
Increase (decrease) in operating liabilities		
Payroll liabilities	(147)	(5,772)
Accounts payable	10,693	8,365
Deferred revenues	3,783	(10,651)
Net Cash Provided By Operating Activities	176,958	209,390
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of donated investments	1,169,474	47,332
Payments for property and equipment	(103,736)	(9,347)
Net Cash Provided By Investing Activities	1,065,738	37,985
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(1,300,000)	-
Net Cash Used In Financing Activities	(1,300,000)	-
Net (Decrease) Increase in Cash	(57,304)	247,375
CASH - BEGINNING OF YEAR	996,046	748,671
CASH - END OF YEAR	$ 938,742	$ 996,046
SUPPLEMENTAL DISCLOSURES		
Interest paid during the year	$ 105,146	$ 105,799

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.

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.

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. There were no permanently restricted net assets as of December 31, 2017 and 2016.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 revenues 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 revenues until the year of the event.

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 estimated fair 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.

Reclassifications

Certain reclassifications have been made to the 2016 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consists of pledges made for the Organization's capital campaign. Scheduled expected collections of contributions receivable are as follows:

Year Ending December 31,	
2018	$ 1,378,954
2019	361,000
2020	200,000
2021	200,000
	$ 2,139,954

NOTE 4 - PROPERTY HELD FOR DEVELOPMENT

During 2015, the Organization purchased approximately 138 acres for the future development of a post-secondary educational and residential facility. The results of future fundraising efforts will determine the timing of the next stage of this project.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2017	2016
Land	$ 315,000	$ 315,000
Building and improvements	1,214,546	1,214,546
Transportation vehicles	214,501	129,101
Office equipment	37,891	25,959
Facility equipment	33,434	31,638
Classroom equipment	36,883	20,343
Furniture	18,274	11,274
	1,870,529	1,747,861
Accumulated depreciation	(527,029)	(479,827)
	$ 1,343,500	$ 1,268,034

Depreciation expense was $47,202 and $34,525 for 2017 and 2016, respectively.

NOTE 6 - LONG-TERM NOTE PAYABLE

In September 2015, the Organization entered into a note payable with a local bank to purchase property for future development (Note 4) and to refinance its current facility. The note was modified in November 2016 to extend the interest only payments at an interest rate of 3.25% through November 2017. In November 2017, the note was modified again to extend the interest only payments through November 2018. On November 10, 2017 the interest rate adjusted to 3.40%. Beginning November 2018, monthly principal and interest payments are projected to be $10,663 based on current loan balances. A final balloon payment is due November 11, 2021. The loan is collateralized by the real property being financed.

Note payable consists of the following as of December 31:

	2017	2016
Note payable	$ 1,855,000	$ 3,155,000
Less unamortized loan fees	(2,073)	(2,850)
	$ 1,852,927	$ 3,152,150

Scheduled principal repayments on the note payable are as follows:

Year Ending December 31,	
2018	$ 10,830
2019	66,283
2020	68,572
2021	1,709,315
	$ 1,855,000

NOTE 7 - IN-KIND CONTRIBUTIONS

The following in-kind contributions have been included in assets, revenues and expenses in the financial statements for the years ended December 31:

	2017	2016
Restricted contributions/assets		
Professional design fees	$ 36,813	$ -
Restricted contributions/expenses		
Maintenance	850	-
Unrestricted contributions/assets		
Equipment and furnishings	28,294	-
Unrestricted contributions/expenses		
Supplies and services	24,400	16,772
Direct product costs	-	165
Special events/expenses		
Prizes, fees and materials	23,474	16,356
	$ 113,831	$ 33,293

NOTE 7 - IN-KIND CONTRIBUTIONS (CONTINUED)

Additionally, in-kind contributions for auction items were received and recorded as assets that totaled $7,928 and $7,220 for 2017 and 2016, respectively. These assets were subsequently sold during fundraising events with the proceeds recorded in special events income.

NOTE 8 - UNRESTRICTED-DESIGNATED NET ASSETS

Certain unrestricted net assets have been internally designated by the board of directors for the construction of a home that is part of the future residential campus plans of the Organization.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets included the following at December 31:

	2017	2016
Capital campaign	$ 2,401,682	$ 601,654
Campus additions	18,500	-
Programming and improvement grants	14,352	34,636
Music fund	5,291	8,238
Bus fund	-	46,297
	$ 2,439,825	$ 690,825

NOTE 10 - RETIREMENT PLAN

The Organization offers a 403(b) retirement plan for all full time and permanent part time employees. Employees are 100% vested in all employee contributions and related earnings. The plan allows for discretionary matching of employee contributions by the Organization. The Organization made no discretionary match during 2017 or 2016.

NOTE 11 - EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through March 19, 2018 which is the date the financial statements were available to be issued.

NOTE 12 - UPCOMING ACCOUNTING PRONOUNCEMENTS

In August, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, that is intended to improve financial reporting relating to liquidity, financial performance and cash flows.

More specifically, the changes affect net asset classifications by reflecting two classifications of net assets, one "without donor-imposed restrictions" and one "with donor-imposed restrictions," which differ from the traditional classifications of unrestricted, temporarily restricted, and permanently restricted. In addition, reporting of expenses by both natural and functional classification is required and investment returns must be reflected net of related investment expenses. The cash flow statement is also allowed to be restructured by using the direct method of reporting and there are further disclosures regarding an organization's liquidity.

The new standard is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial statements in the subsequent years.