

**BRIGHTSTONE, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2014 AND 2013**

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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, 2014 and 2013, 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, 2014 and 2013, 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.


April 14, 2015

BRIGHTSTONE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

ASSETS

	2014	2013
Cash	\$ 874,276	\$ 849,155
Contributions receivable	1,200	16,032
Accounts receivable	342	1,408
Earnest money held in escrow	35,000	-
Prepaid expenses	8,031	5,312
Property and equipment, net	<u>1,163,806</u>	<u>1,189,950</u>
TOTAL ASSETS	<u><u>\$ 2,082,655</u></u>	<u><u>\$ 2,061,857</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Payroll liabilities	\$ 2,029	\$ 1,970
Accrued interest	1,466	1,466
Accounts payable	9,514	11,256
Deferred revenues	11,566	4,706
Note payable	<u>364,245</u>	<u>377,608</u>
Total Liabilities	<u>388,820</u>	<u>397,006</u>

NET ASSETS

Unrestricted		
Undesignated	1,292,069	1,297,713
Designated - Ferrell Home	<u>201,128</u>	<u>193,058</u>
Total Unrestricted	<u>1,493,197</u>	<u>1,490,771</u>
Temporarily restricted	<u>200,638</u>	<u>174,080</u>
Total Net Assets	<u>1,693,835</u>	<u>1,664,851</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,082,655</u></u>	<u><u>\$ 2,061,857</u></u>

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, 2014 AND 2013

	2014	2013
Changes in Unrestricted Net Assets		
Revenues		
Contributions	\$ 246,815	\$ 252,432
Special events (net of direct benefits to donors of \$63,431 and \$79,484 for 2014 and 2013, respectively)	243,079	273,010
Tuition	262,104	258,454
Fees	29,746	26,609
Product sales (net of direct costs of \$14,710 and \$20,991 for 2014 and 2013, respectively)	24,952	27,946
Other income	2,750	2,750
Interest income	648	570
	<hr/>	<hr/>
Total Unrestricted Revenues	810,094	841,771
Net assets released from restrictions	<hr/>	<hr/>
	113,380	67,917
	<hr/>	<hr/>
Total Unrestricted Revenues and Reclassifications	923,474	909,688
Functional Expenses		
Program services	<hr/>	<hr/>
Supporting services	552,724	539,974
Fundraising		
Special events direct costs	8,544	18,102
General	<hr/>	<hr/>
	187,804	174,938
	<hr/>	<hr/>
	196,348	193,040
Management and general	<hr/>	<hr/>
	171,976	162,101
Total Unrestricted Functional Expenses	<hr/>	<hr/>
	921,048	895,115
Increase in unrestricted net assets	<hr/>	<hr/>
	2,426	14,573
Changes in Temporarily Restricted Net Assets		
Contributions	139,938	229,947
Net assets released from restrictions	<hr/>	<hr/>
	(113,380)	(67,917)
Increase in temporarily restricted net assets	<hr/>	<hr/>
	26,558	162,030
INCREASE IN NET ASSETS	28,984	176,603
NET ASSETS - BEGINNING OF YEAR	<hr/>	<hr/>
	1,664,851	1,488,248
NET ASSETS - END OF YEAR	<hr/>	<hr/>
	\$ 1,693,835	\$ 1,664,851

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

BRIGHTSTONE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2014

	Program Services	Supporting Services		Total
		Fund- raising	Management and General	
Compensation and related costs				
Compensation	\$ 331,727	\$ 105,164	\$ 109,445	\$ 546,336
Payroll taxes and other benefits	64,071	17,838	16,301	98,210
	<u>395,798</u>	<u>123,002</u>	<u>125,746</u>	<u>644,546</u>
Community relations and development	-	48,335	-	48,335
Depreciation	40,176	2,067	4,275	46,518
Facilities	31,634	1,079	3,234	35,947
Transportation	25,967	522	-	26,489
Interest	17,392	1,383	988	19,763
Scholarships	18,028	-	-	18,028
Office	1,720	5,161	10,321	17,202
Capital campaign	-	30	16,455	16,485
Lunches	11,212	-	-	11,212
Teaching supplies and materials	6,955	-	-	6,955
Banking fees	-	6,111	-	6,111
Professional services	-	-	5,500	5,500
Bad debt	-	-	4,675	4,675
Student activities	3,758	-	-	3,758
Training	84	114	782	980
	<u>552,724</u>	<u>187,804</u>	<u>171,976</u>	<u>912,504</u>
Total expenses before special events direct costs				
Donated items for special events	-	23,953	-	23,953
Special events direct costs	-	48,022	-	48,022
Less direct benefits to donors	-	(63,431)	-	(63,431)
	<u>-</u>	<u>8,544</u>	<u>-</u>	<u>8,544</u>
Total special events direct costs				
Total functional expenses	<u>\$ 552,724</u>	<u>\$ 196,348</u>	<u>\$ 171,976</u>	<u>\$ 921,048</u>

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

BRIGHTSTONE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2013

	Program Services	Supporting Services		Total
		Fund- raising	Management and General	
Compensation and related costs				
Compensation	\$ 331,766	\$ 98,717	\$ 113,823	\$ 544,306
Payroll taxes and other benefits	59,556	15,016	15,644	90,216
	<u>391,322</u>	<u>113,733</u>	<u>129,467</u>	<u>634,522</u>
Community relations and development	-	47,866	-	47,866
Depreciation	35,001	1,762	4,889	41,652
Facilities	28,916	986	2,957	32,859
Transportation	24,120	483	-	24,603
Interest	18,000	614	1,841	20,455
Scholarships	21,452	-	-	21,452
Office	3,290	1,866	16,512	21,668
Capital campaign	-	617	-	617
Lunches	10,171	-	-	10,171
Teaching supplies and materials	3,062	-	-	3,062
Banking fees	-	6,636	-	6,636
Professional services	-	-	5,557	5,557
Bad debt	1,000	-	-	1,000
Student activities	3,100	-	-	3,100
Training	540	375	878	1,793
	<u>539,974</u>	<u>174,938</u>	<u>162,101</u>	<u>877,013</u>
Total expenses before special events direct costs				
Donated items for special events	-	40,895	-	40,895
Special events direct costs	-	56,691	-	56,691
Less direct benefits to donors	-	(79,484)	-	(79,484)
	<u>-</u>	<u>18,102</u>	<u>-</u>	<u>18,102</u>
Total special events direct costs				
Total functional expenses	<u>\$ 539,974</u>	<u>\$ 193,040</u>	<u>\$ 162,101</u>	<u>\$ 895,115</u>

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

BRIGHTSTONE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 28,984	\$ 176,603
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	46,518	41,652
Decrease (increase) in operating assets		
Contributions receivable	14,832	(6,568)
Accounts receivable	1,066	254
Prepaid expenses	(2,719)	(32)
Increase (decrease) in operating liabilities		
Payroll liabilities	59	(36)
Accounts payable	(1,742)	5,077
Deferred revenues	6,860	(661)
	<u>93,858</u>	<u>216,289</u>
Net Cash Provided By Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property and equipment	(20,374)	(11,112)
Escrow payments for potential property purchase	(35,000)	-
	<u>(55,374)</u>	<u>(11,112)</u>
Net Cash Used In Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(13,363)	(12,669)
	<u>(13,363)</u>	<u>(12,669)</u>
Net Cash Used In Financing Activities		
Net Increase in Cash	25,121	192,508
CASH - BEGINNING OF YEAR	<u>849,155</u>	<u>656,647</u>
CASH - END OF YEAR	<u>\$ 874,276</u>	<u>\$ 849,155</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid during the year	<u>\$ 19,763</u>	<u>\$ 20,455</u>

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

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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, 2014 AND 2013

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. There were no permanently restricted net assets as of December 31, 2014 and 2013.

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.

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 and are considered level 1 securities.

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2014, 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 2011.

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, 2014 and 2013.

NOTE 4 - INVESTMENTS

All donated investments were sold by year-end; therefore, no investments were held by the Organization at December 31, 2014 or 2013. Realized gains (losses) on the liquidation of donated investments totaled \$26 and (\$124) during 2014 and 2013, respectively.

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 5 - COMMITMENTS/EARNEST MONEY

The Organization has entered into an agreement with two parties to purchase land for a future residential facility. A total of \$35,000 has been paid as earnest money for this agreement which will be applied to the purchase price or forfeited if the offer is not withdrawn or cancelled by September 2015.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2014	2013
Land	\$ 315,000	\$ 315,000
Building and improvements	1,056,346	1,048,676
Transportation vehicles	129,101	129,101
Office equipment	21,875	19,662
Facility equipment	29,694	23,198
Classroom equipment	18,678	14,682
Furniture	<u>11,374</u>	<u>11,374</u>
	1,582,068	1,561,693
Accumulated depreciation	<u>(418,262)</u>	<u>(371,743)</u>
	<u>\$ 1,163,806</u>	<u>\$ 1,189,950</u>

Depreciation expense was \$46,518 and \$41,652 for 2014 and 2013, respectively.

NOTE 7 - 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,

2015	\$ 14,344
2016	<u>349,901</u>
	<u>\$ 364,245</u>

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2014 AND 2013

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:

	2014	2013
Included in contributions/expenses		
Supplies and services	\$ 16,280	\$ 19,093
Included in special events/expenses		
Prizes, fees and materials	<u>23,953</u>	<u>40,895</u>
	<u>\$ 40,233</u>	<u>\$ 59,988</u>

Additionally, in-kind contributions for auction items were received and recorded as assets that totaled \$8,332 and \$11,459 for 2014 and 2013, respectively. These assets were subsequently sold during fundraising events with the proceeds recorded in special events income.

NOTE 9 - 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 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets included the following at December 31:

	2014	2013
Capital campaign	\$ 172,525	\$ 150,375
Programming and improvement grants	23,783	23,705
Music fund	<u>4,330</u>	<u>-</u>
	<u>\$ 200,638</u>	<u>\$ 174,080</u>

NOTE 11 - 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 2014 or 2013.

NOTE 12 - EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through April 14, 2015 which is the date the financial statements were available to be issued.