

**BRIGHTSTONE, INC.  
FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

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**CONTENTS**

	<b>PAGE</b>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-11



## 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), which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities, 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 from 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 entity'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 entity'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, 2018 and 2017, 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.

### Emphasis of Matter

As discussed in Note 2, the entity adopted the provisions of Financial Accounting Standards Board ASU 2016-14 *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

  
Blankenship CPA Group, PLLC  
Brentwood, Tennessee  
April 19, 2019

**BRIGHTSTONE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2018 AND 2017**

**ASSETS**

	<b>2018</b>	<b>2017</b>
Cash	\$ 566,588	\$ 444,942
Contributions receivable	607,916	2,139,954
Accounts receivable	2,861	2,836
Prepaid expenses	4,928	1,820
Investments	-	24,888
Cash restricted or designated for long term use	621,669	493,800
Property held for development	2,997,701	2,893,941
Property and equipment, net	<u>1,331,732</u>	<u>1,343,500</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 6,133,395</u></b>	<b><u>\$ 7,345,681</u></b>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Payroll liabilities	\$ 1,587	\$ 3,215
Accrued interest	-	5,697
Accounts payable	9,966	30,781
Deferred revenues	55,593	7,059
Note payable	<u>-</u>	<u>1,852,927</u>
<b>Total Liabilities</b>	<b><u>67,146</u></b>	<b><u>1,899,679</u></b>
<b>NET ASSETS</b>		
Without donor restrictions	5,026,798	3,006,177
With donor restrictions	<u>1,039,451</u>	<u>2,439,825</u>
<b>Total Net Assets</b>	<b><u>6,066,249</u></b>	<b><u>5,446,002</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 6,133,395</u></b>	<b><u>\$ 7,345,681</u></b>

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

**BRIGHTSTONE, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>Changes in Net Assets Without Donor Restrictions</b>		
Revenues		
Contributions	\$ 577,359	\$ 482,833
Special events (net of direct benefits to donors of \$54,536 and \$56,551 for 2018 and 2017, respectively)	328,198	295,148
Tuition	324,575	316,666
Fees	34,258	30,002
Product sales (net of direct costs of \$18,768 and \$18,660 for 2018 and 2017, respectively)	23,333	24,875
Other income	36,750	32,900
Interest income	<u>2,415</u>	<u>1,052</u>
 Total revenues without donor restrictions	 1,326,888	 1,183,476
 Net assets released from restrictions	 <u>2,012,491</u>	 <u>1,711,546</u>
 Total revenues and other support without donor restrictions	 <u>3,339,379</u>	 <u>2,895,022</u>
 Expenses		
Program services		
Educational services	678,725	666,549
Campus development	146,919	176,489
Supporting services		
Management and general	164,063	175,423
Fundraising	<u>329,051</u>	<u>326,110</u>
 Total expenses	 <u>1,318,758</u>	 <u>1,344,571</u>
 Increase in net assets without donor restrictions	 <u>2,020,621</u>	 <u>1,550,451</u>
 <b>Changes in Net Assets With Donor Restrictions</b>		
Contributions	612,117	3,460,546
Net assets released from restrictions	<u>(2,012,491)</u>	<u>(1,711,546)</u>
 (Decrease) increase in net assets with donor restrictions	 <u>(1,400,374)</u>	 <u>1,749,000</u>
 INCREASE IN NET ASSETS	 620,247	 3,299,451
 NET ASSETS - BEGINNING OF YEAR	 <u>5,446,002</u>	 <u>2,146,551</u>
 NET ASSETS - END OF YEAR	 <u>\$ 6,066,249</u>	 <u>\$ 5,446,002</u>

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

**BRIGHTSTONE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2018**

	Program Services		Supporting Services		Total
	Educational Services	Campus Development	Management and General	Fund-raising	
Compensation and related costs					
Compensation	\$ 425,218	\$ 26,300	\$ 102,124	\$ 169,101	\$ 722,743
Payroll taxes and other benefits	78,182	4,518	21,597	24,609	128,906
	503,400	30,818	123,721	193,710	851,649
Facilities	37,975	71,872	2,245	2,653	114,745
Interest	6,793	36,939	425	502	44,659
Professional services	-	-	8,213	28,126	36,339
Depreciation	47,205	5,990	3,988	4,260	61,443
Community relations and development	-	-	-	74,978	74,978
Scholarships	26,520	-	-	-	26,520
Office	10,025	-	9,079	8,207	27,311
Transportation	19,110	-	-	1,227	20,337
Banking fees	-	-	13,486	-	13,486
Lunches	13,076	-	-	-	13,076
Capital campaign and development	-	-	-	4,029	4,029
Teaching supplies and materials	10,222	-	-	-	10,222
Student activities	4,375	-	-	-	4,375
Training	24	1,300	2,906	240	4,470
Bad debt	-	-	-	-	-
	678,725	146,919	164,063	317,932	1,307,639
Total expenses before special events direct costs					
Special events direct costs	-	-	-	51,493	51,493
Donated items for special events	-	-	-	14,162	14,162
Less direct benefits to donors	-	-	-	(54,536)	(54,536)
	-	-	-	11,119	11,119
Total special events direct costs					
Total expenses	\$ 678,725	\$ 146,919	\$ 164,063	\$ 329,051	\$ 1,318,758

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

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

	<u>Program Services</u>		<u>Supporting Services</u>		Total
	Educational Services	Campus Development	Management and General	Fund- raising	
Compensation and related costs					
Compensation	\$ 409,474	\$ -	\$ 113,867	\$ 147,939	\$ 671,280
Payroll taxes and other benefits	98,773	-	22,140	28,687	149,600
	<u>508,247</u>	<u>-</u>	<u>136,007</u>	<u>176,626</u>	<u>820,880</u>
Facilities	37,238	83,480	2,327	2,751	125,796
Interest	14,653	88,495	916	1,082	105,146
Professional services	-	-	6,520	49,849	56,369
Depreciation	36,662	4,514	2,876	3,150	47,202
Community relations and development	-	-	-	42,017	42,017
Scholarships	29,055	-	-	-	29,055
Office	2,612	-	11,473	8,716	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	-	567	899	2,538
Bad debt	-	-	-	25	25
	<u>-</u>	<u>-</u>	<u>-</u>	<u>25</u>	<u>25</u>
Total expenses before special events direct costs	<u>666,549</u>	<u>176,489</u>	<u>175,423</u>	<u>295,700</u>	<u>1,314,161</u>
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,410</u>	<u>30,410</u>
Total functional expenses	<u>\$ 666,549</u>	<u>\$ 176,489</u>	<u>\$ 175,423</u>	<u>\$ 326,110</u>	<u>\$ 1,344,571</u>

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

**BRIGHTSTONE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 620,247	\$ 3,299,451
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	61,443	47,202
Amortization of loan fees	2,073	777
Donated equipment and furnishings	(4,698)	(28,294)
Donated services for property held for development	(80,295)	(36,813)
Donated investments	(1,752,250)	(1,194,362)
Decrease (increase) in operating assets		
Contributions receivable	1,532,038	(1,942,561)
Accounts receivable	(25)	4,639
Prepaid expenses	(3,108)	228
Increase (decrease) in operating liabilities		
Payroll liabilities	(1,628)	(147)
Accrued interest	(5,697)	-
Accounts payable	(20,815)	10,693
Deferred revenues	48,534	3,783
Net Cash Provided By Operating Activities	<u>395,819</u>	<u>164,596</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the sale of donated investments	1,777,138	1,169,474
Payments for property held for development	(23,465)	-
Payments for property and equipment	(44,977)	(91,374)
Net Cash Provided By Investing Activities	<u>1,708,696</u>	<u>1,078,100</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on note payable	(1,855,000)	(1,300,000)
Net Cash Used In Financing Activities	<u>(1,855,000)</u>	<u>(1,300,000)</u>
Net Increase (Decrease) in Cash	249,515	(57,304)
CASH - BEGINNING OF YEAR	938,742	996,046
CASH - END OF YEAR	<u>\$ 1,188,257</u>	<u>\$ 938,742</u>
<b>RECONCILIATION OF CASH TO STATEMENTS OF FINANCIAL POSITION</b>		
Cash	\$ 566,588	\$ 444,942
Cash restricted or designated for long term use	621,669	493,800
	<u>\$ 1,188,257</u>	<u>\$ 938,742</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
Cash payments for interest	<u>\$ 48,283</u>	<u>\$ 104,369</u>

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



**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

**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 financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

**Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Property and Equipment

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 three to 39 years and is computed on a straight-line method.

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.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

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.

Amounts received in advance for the Organization's Writer's Night fundraiser are recorded as deferred revenues until the year of the event.

In-kind Donations

Various volunteers donate many hours to the Organization's program services and fundraising campaigns. These contributed services are not reflected in the financial statements because the activities do not meet the necessary criteria for recognition under US GAAP. Property, equipment, 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 contribution based upon information provided by third-party providers.

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.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Compensation	Time and effort
Payroll taxes and other benefits	Time and effort
Facilities	Facility square footage
Interest	Time and effort
Depreciation	Facility square footage
Office	Time and effort
Training	Time and effort

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2016-14 *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

**NOTE 3 - AVAILABILITY AND LIQUIDITY**

The following represents the Organization’s financial assets at December 31:

	2018	2017
Financial assets at year end:		
Cash	\$ 1,188,257	\$ 938,742
Contributions receivable	607,916	2,139,954
Accounts receivable	<u>2,861</u>	<u>2,836</u>
Total financial assets	1,799,034	3,081,532
Less amounts not available to be used within one year:		
Cash restricted for long term purposes	621,669	493,800
Contributions receivable restricted for long term purposes	<u>603,916</u>	<u>2,139,954</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 573,449</u>	<u>\$ 447,778</u>

As part of its liquidity plan, the Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**NOTE 4 - CONTRIBUTIONS RECEIVABLE**

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

<u>Year Ending December 31,</u>	
2019	\$ 478,916
2020	54,000
2021	50,000
2022	<u>25,000</u>
	<u>\$ 607,916</u>

**NOTE 5 - 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.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 6 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<b>2018</b>	<b>2017</b>
Land and improvements	\$ 320,600	\$ 315,000
Building and improvements	1,231,579	1,214,546
Transportation vehicles	214,501	214,501
Office equipment	33,257	37,891
Facility equipment	43,993	33,434
Classroom equipment	45,777	36,883
Furniture	<u>19,472</u>	<u>18,274</u>
	1,909,179	1,870,529
Accumulated depreciation	<u>(577,447)</u>	<u>(527,029)</u>
	<u>\$ 1,331,732</u>	<u>\$ 1,343,500</u>

Depreciation expense was \$61,443 and \$47,202 for 2018 and 2017, respectively.

**NOTE 7 - 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 5) 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 December 20, 2018, the Organization paid off the outstanding balance.

**NOTE 8 - NET ASSETS**

Net assets without donor restrictions consist of the following at December 31:

	<b>2018</b>	<b>2017</b>
Undesignated net assets without donor restrictions	\$ 4,812,276	\$ 2,792,605
Designated for construction of a future home at new campus	<u>214,522</u>	<u>213,572</u>
	<u>\$ 5,026,798</u>	<u>\$ 3,006,177</u>

Net assets with donor restrictions are restricted for the following purposes at December 31:

	<b>2018</b>	<b>2017</b>
Capital campaign	\$ 1,011,063	\$ 2,401,682
Programming and improvement grants	22,277	14,352
Music fund	6,111	5,291
Campus additions	<u>-</u>	<u>18,500</u>
	<u>\$ 1,039,451</u>	<u>\$ 2,439,825</u>

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 9 - 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:

	2018	2017
Restricted contributions/assets		
Professional design fees	\$ 80,295	\$ 36,813
Unrestricted contributions/expenses		
Supplies and services	25,350	24,400
Special events/expenses		
Prizes, fees and materials	14,162	23,474
Unrestricted contributions/assets		
Equipment and furnishings	4,698	28,294
Restricted contributions/expenses		
Maintenance	-	850
	<u>\$ 124,505</u>	<u>\$ 113,831</u>

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

**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 2018 or 2017.

**NOTE 11 - RECENT ACCOUNTING PRONOUNCEMENTS**

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the balance sheet. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018. The Organization's adoption of the new standard in 2019 will require quantitative and qualitative financial statement disclosures regarding the Organization's lease arrangements and balance sheet presentation of right of use assets and lease liabilities representative of the Organization's discounted future lease payments. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial statements in the subsequent years.

**NOTE 12 - SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through April 19, 2019 which is the date the financial statements were available to be issued.