

**BRIGHTSTONE, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2016 AND 2015**

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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, 2016 and 2015, 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, 2016 and 2015, 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
May 2, 2017

BRIGHTSTONE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS

	2016	2015
Cash	\$ 996,046	\$ 748,671
Contributions receivable	197,393	391,894
Accounts receivable	7,475	7,656
Prepaid expenses	2,048	6,886
Property held for development	2,860,128	3,014,828
Property and equipment, net	<u>1,268,034</u>	<u>1,138,512</u>
TOTAL ASSETS	<u><u>\$ 5,331,124</u></u>	<u><u>\$ 5,308,447</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Payroll liabilities	\$ 3,362	\$ 9,134
Accrued interest	5,697	5,697
Accounts payable	20,088	11,723
Deferred revenues	3,276	13,927
Note payable	<u>3,152,150</u>	<u>3,151,373</u>
Total Liabilities	<u><u>3,184,573</u></u>	<u><u>3,191,854</u></u>
NET ASSETS		
Unrestricted		
Undesignated	1,245,948	1,249,494
Designated - Ferrell Home	<u>209,778</u>	<u>201,128</u>
Total Unrestricted	<u>1,455,726</u>	<u>1,450,622</u>
Temporarily restricted	<u>690,825</u>	<u>665,971</u>
Total Net Assets	<u><u>2,146,551</u></u>	<u><u>2,116,593</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,331,124</u></u>	<u><u>\$ 5,308,447</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, 2016 AND 2015

	2016	2015
Changes in Unrestricted Net Assets		
Revenues		
Contributions	\$ 303,951	\$ 222,218
Special events (net of direct benefits to donors of \$60,326 and \$68,064 for 2016 and 2015, respectively)	281,898	284,749
Tuition	306,999	267,076
Fees	30,191	30,698
Product sales (net of direct costs of \$20,230 and \$16,064 for 2016 and 2015, respectively)	17,873	15,355
Other income	21,400	4,800
Interest income	701	983
	<u>963,013</u>	<u>825,879</u>
Total Revenues		
Net assets released from restrictions	<u>248,264</u>	<u>145,196</u>
Total Revenues and Reclassifications	<u>1,211,277</u>	<u>971,075</u>
Functional Expenses		
Program services	<u>626,924</u>	<u>577,177</u>
Supporting services		
Fundraising		
Special events direct costs	6,686	13,117
General	225,910	200,764
	<u>232,596</u>	<u>213,881</u>
Management and general	<u>181,689</u>	<u>183,896</u>
Campus development	<u>164,964</u>	<u>38,551</u>
Total Functional Expenses	<u>1,206,173</u>	<u>1,013,505</u>
Increase (decrease) in unrestricted net assets	<u>5,104</u>	<u>(42,430)</u>
Changes in Temporarily Restricted Net Assets		
Contributions	273,118	610,384
Net assets released from restrictions	<u>(248,264)</u>	<u>(145,196)</u>
Increase in temporarily restricted net assets	<u>24,854</u>	<u>465,188</u>
INCREASE IN NET ASSETS	29,958	422,758
NET ASSETS - BEGINNING OF YEAR	<u>2,116,593</u>	<u>1,693,835</u>
NET ASSETS - END OF YEAR	<u>\$ 2,146,551</u>	<u>\$ 2,116,593</u>

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

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

	Program Services	Supporting Services			Total
		Fund- raising	Management and General	Campus Development	
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
	<u>478,425</u>	<u>145,655</u>	<u>136,496</u>	<u>-</u>	<u>760,576</u>
Facilities	38,817	2,867	2,426	73,409	117,519
Community relations and development	-	46,960	-	-	46,960
Interest	14,901	1,101	931	88,866	105,799
Depreciation	26,375	2,873	2,588	2,689	34,525
Transportation	15,637	326	-	-	15,963
Scholarships	29,465	-	-	-	29,465
Professional services	-	-	28,174	-	28,174
Office	2,011	7,856	10,056	-	19,923
Capital campaign and development	-	7,880	-	-	7,880
Lunches	11,020	-	-	-	11,020
Banking fees	-	9,592	-	-	9,592
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
	<u>626,924</u>	<u>225,910</u>	<u>181,689</u>	<u>164,964</u>	<u>1,199,487</u>
Total expenses before special events direct costs					
Donated items for special events	-	16,356	-	-	16,356
Special events direct costs	-	50,656	-	-	50,656
Less direct benefits to donors	-	(60,326)	-	-	(60,326)
	<u>-</u>	<u>6,686</u>	<u>-</u>	<u>-</u>	<u>6,686</u>
Total special events direct costs					
Total functional expenses	<u>\$ 626,924</u>	<u>\$ 232,596</u>	<u>\$ 181,689</u>	<u>\$ 164,964</u>	<u>\$ 1,206,173</u>

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

BRIGHTSTONE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	<u>Supporting Services</u>				Total
	Program Services	Fund- raising	Management and General	Campus Development	
Compensation and related costs					
Compensation	\$ 352,520	\$ 101,232	\$ 112,001	\$ -	\$ 565,753
Payroll taxes and other benefits	76,587	29,198	19,125	-	124,910
	<u>429,107</u>	<u>130,430</u>	<u>131,126</u>	<u>-</u>	<u>690,663</u>
Facilities	33,379	2,466	2,086	13,036	50,967
Community relations and development	-	46,072	-	-	46,072
Interest	16,764	1,238	1,048	25,515	44,565
Depreciation	29,055	2,649	2,363	-	34,067
Transportation	23,471	-	-	-	23,471
Scholarships	22,286	-	-	-	22,286
Professional services	-	-	21,557	-	21,557
Office	1,908	7,633	9,542	-	19,083
Capital campaign and development	-	768	16,174	-	16,942
Lunches	10,215	-	-	-	10,215
Banking fees	-	9,166	-	-	9,166
Teaching supplies and materials	6,654	-	-	-	6,654
Student activities	2,954	-	-	-	2,954
Training	1,184	342	-	-	1,526
Bad debt	200	-	-	-	200
	<u>577,177</u>	<u>200,764</u>	<u>183,896</u>	<u>38,551</u>	<u>1,000,388</u>
Total expenses before special events direct costs					
Donated items for special events	-	24,810	-	-	24,810
Special events direct costs	-	56,371	-	-	56,371
Less direct benefits to donors	-	(68,064)	-	-	(68,064)
	<u>-</u>	<u>13,117</u>	<u>-</u>	<u>-</u>	<u>13,117</u>
Total special events direct costs					
Total functional expenses	<u>\$ 577,177</u>	<u>\$ 213,881</u>	<u>\$ 183,896</u>	<u>\$ 38,551</u>	<u>\$ 1,013,505</u>

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

BRIGHTSTONE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 29,958	\$ 422,758
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	34,525	34,067
Amortization of loan fees	777	259
Decrease (increase) in operating assets		
Contributions receivable	194,501	(390,694)
Accounts receivable	181	(7,314)
Prepaid expenses	4,838	(2,741)
Increase (decrease) in operating liabilities		
Payroll liabilities	(5,772)	7,105
Accrued interest	-	4,231
Accounts payable	8,365	2,209
Deferred revenues	(10,651)	2,361
	<u>256,722</u>	<u>72,241</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property and equipment	(9,347)	(8,773)
Payments for property held for development	-	(2,979,828)
	<u>(9,347)</u>	<u>(2,988,601)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	-	3,155,000
Payments on note payable	-	(364,245)
	<u>-</u>	<u>2,790,755</u>
Net Increase (Decrease) in Cash	247,375	(125,605)
CASH - BEGINNING OF YEAR	<u>748,671</u>	<u>874,276</u>
CASH - END OF YEAR	<u>\$ 996,046</u>	<u>\$ 748,671</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid during the year	<u>\$ 105,799</u>	<u>\$ 40,334</u>

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

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

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 2015 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.

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2016 AND 2015

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, 2016 and 2015.

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 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 market value and are considered level 1 securities.

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2016 AND 2015

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.

Loan Fees

During 2016, the Organization adopted ASU 2015-03 which requires debt issuance costs related to a recognized debt liability to be presented on the statements of financial position as a direct deduction for the carrying amount of that debt liability. Previously these loan fees had been presented on the statements of financial position as an asset. Accordingly, the loan fee asset of \$3,627 presented at December 31, 2015 has been reclassified as a reduction of the previously reported note payable balance.

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, 2016, 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 2013.

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, 2016 and 2015.

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 4 - INVESTMENTS

All donated investments were sold by year-end; therefore, no investments were held by the Organization at December 31, 2016 or 2015.

NOTE 5 - PROPERTY HELD FOR DEVELOPMENT

During 2015, the Organization purchased property for future development of a new, post-secondary educational and residential facility. The property consists of approximately 138 acres and a building valued at \$2,860,128 and \$154,700, respectively. The results of future fundraising efforts will determine the timing of the next stage of this project. During 2016, the building was transferred to property and equipment as it was placed in service.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2016	2015
Land	\$ 315,000	\$ 315,000
Building and improvements	1,214,546	1,056,346
Transportation vehicles	129,101	129,101
Office equipment	25,959	28,608
Facility equipment	31,638	29,694
Classroom equipment	20,343	19,778
Furniture	<u>11,274</u>	<u>11,374</u>
	1,747,861	1,589,901
Accumulated depreciation	<u>(479,827)</u>	<u>(451,389)</u>
	<u>\$ 1,268,034</u>	<u>\$ 1,138,512</u>

Depreciation expense was \$34,525 and \$34,067 for 2016 and 2015, 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 term. Now the note calls for interest only payments at an interest rate of 3.25% through November 2017. Beginning December 2017, monthly principal and interest payments of \$18,218 begin. On November 10, 2017 the interest rate adjusts to 3.40%. A final balloon payment is due November 11, 2021. The loan is collateralized by the real property being financed.

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 7 - LONG-TERM NOTE PAYABLE (CONTINUED)

Note payable consists of the following as of December 31:

	2016	2015
Note payable	\$ 3,155,000	\$ 3,155,000
Less unamortized loan fees	<u>(2,850)</u>	<u>(3,627)</u>
	<u>\$ 3,152,150</u>	<u>\$ 3,151,373</u>

Scheduled principal repayments on the note payable are as follows:

Year Ending December 31,

2017	\$ 9,279
2018	113,418
2019	117,335
2020	121,387
2021	<u>2,793,581</u>
	<u>\$ 3,155,000</u>

NOTE 8 - IN-KIND CONTRIBUTIONS

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

	2016	2015
Included in:		
Unrestricted contributions/expenses		
Supplies and services	\$ 16,772	\$ 20,937
Direct product costs	165	125
Restricted contributions/expenses		
Maintenance	-	750
Special events/expenses		
Prizes, fees and materials	<u>16,356</u>	<u>24,810</u>
	<u>\$ 33,293</u>	<u>\$ 46,622</u>

Additionally, in-kind contributions for auction items were received and recorded as assets that totaled \$7,220 and \$12,810 for 2016 and 2015, respectively. These assets were subsequently sold during fundraising events with the proceeds recorded in special events income.

BRIGHTSTONE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2016 AND 2015

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:

	2016	2015
Capital campaign	\$ 601,654	\$ 622,753
Programming and improvement grants	34,636	18,500
Bus fund	46,297	16,930
Music fund	<u>8,238</u>	<u>7,788</u>
	<u>\$ 690,825</u>	<u>\$ 665,971</u>

NOTE 11 - 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. The plan allows for discretionary matching of employee contributions by the Organization. The Organization made no discretionary match during 2016 or 2015.

NOTE 12 - EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 2, 2017 which is the date the financial statements were available to be issued.