

**BRIGHTSTONE, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

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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, 2015 and 2014, 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, 2015 and 2014, 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 28, 2016

**BRIGHTSTONE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2015 AND 2014**

**ASSETS**

	<b>2015</b>	<b>2014</b>
Cash	\$ 748,671	\$ 874,276
Contributions receivable	391,894	1,200
Accounts receivable	7,656	342
Earnest money held in escrow	-	35,000
Prepaid expenses	10,513	8,031
Property held for development	3,014,828	-
Property and equipment, net	<u>1,138,512</u>	<u>1,163,806</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 5,312,074</u></b>	<b><u>\$ 2,082,655</u></b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Payroll liabilities	\$ 9,134	\$ 2,029
Accrued interest	5,697	1,466
Accounts payable	11,723	9,514
Deferred revenues	13,927	11,566
Note payable	<u>3,155,000</u>	<u>364,245</u>
<b>Total Liabilities</b>	<b><u>3,195,481</u></b>	<b><u>388,820</u></b>

**NET ASSETS**

Unrestricted		
Undesignated	1,510,719	1,292,069
Designated - Ferrell Home	<u>201,128</u>	<u>201,128</u>
<b>Total Unrestricted</b>	<b><u>1,711,847</u></b>	<b><u>1,493,197</u></b>
Temporarily restricted	<u>404,746</u>	<u>200,638</u>
<b>Total Net Assets</b>	<b><u>2,116,593</u></b>	<b><u>1,693,835</u></b>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 5,312,074</u></b>	<b><u>\$ 2,082,655</u></b>
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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, 2015 AND 2014**

	2015	2014
<b>Changes in Unrestricted Net Assets</b>		
Revenues		
Contributions	\$ 222,218	\$ 246,815
Special events (net of direct benefits to donors of \$68,064 and \$63,431 for 2015 and 2014, respectively)	284,749	243,079
Tuition	267,076	262,104
Fees	30,698	29,746
Product sales (net of direct costs of \$16,064 and \$14,710 for 2015 and 2014, respectively)	15,355	24,952
Other income	4,800	2,750
Interest income	983	648
	<u>825,879</u>	<u>810,094</u>
Total Revenues	825,879	810,094
Net assets released from restrictions	<u>406,276</u>	<u>113,380</u>
Total Revenues and Reclassifications	<u>1,232,155</u>	<u>923,474</u>
Functional Expenses		
Program services	<u>611,102</u>	<u>552,724</u>
Supporting services		
Fundraising		
Special events direct costs	13,117	8,544
General	203,270	187,804
	<u>216,387</u>	<u>196,348</u>
Management and general	<u>186,016</u>	<u>171,976</u>
Total Functional Expenses	<u>1,013,505</u>	<u>921,048</u>
Increase in unrestricted net assets	<u>218,650</u>	<u>2,426</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions	610,384	139,938
Net assets released from restrictions	<u>(406,276)</u>	<u>(113,380)</u>
Increase in temporarily restricted net assets	<u>204,108</u>	<u>26,558</u>
<b>INCREASE IN NET ASSETS</b>	422,758	28,984
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>1,693,835</u>	<u>1,664,851</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 2,116,593</u>	<u>\$ 1,693,835</u>

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

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

	Program Services	Supporting Services		Total
		Fund- raising	Management and General	
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>690,663</u>
Facilities	44,851	3,313	2,803	50,967
Community relations and development	-	46,072	-	46,072
Interest	39,217	2,897	2,451	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>611,102</u>	<u>203,270</u>	<u>186,016</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>13,117</u>
Total special events direct costs				
Total functional expenses	<u>\$ 611,102</u>	<u>\$ 216,387</u>	<u>\$ 186,016</u>	<u>\$ 1,013,505</u>

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>
Facilities	31,634	1,079	3,234	35,947
Community relations and development	-	48,335	-	48,335
Interest	17,392	1,383	988	19,763
Depreciation	40,176	2,067	4,275	46,518
Transportation	25,967	522	-	26,489
Scholarships	18,028	-	-	18,028
Professional services	-	-	5,500	5,500
Office	1,720	5,161	10,321	17,202
Capital campaign and development	-	30	16,455	16,485
Lunches	11,212	-	-	11,212
Banking fees	-	6,111	-	6,111
Teaching supplies and materials	6,955	-	-	6,955
Student activities	3,758	-	-	3,758
Training	84	114	782	980
Bad debt	-	-	4,675	4,675
	<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.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 422,758	\$ 28,984
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	34,067	46,518
Decrease (increase) in operating assets		
Contributions receivable	(390,694)	14,832
Accounts receivable	(7,314)	1,066
Prepaid expenses	(2,482)	(2,719)
Increase (decrease) in operating liabilities		
Payroll liabilities	7,105	59
Accrued interest	4,231	-
Accounts payable	2,209	(1,742)
Deferred revenues	2,361	6,860
	<u>72,241</u>	<u>93,858</u>
Net Cash Provided By Operating Activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for property and equipment	(8,773)	(20,374)
Payments for property held for development	(2,979,828)	(35,000)
	<u>(2,988,601)</u>	<u>(55,374)</u>
Net Cash Used In Investing Activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from note payable	3,155,000	-
Payments on note payable	(364,245)	(13,363)
	<u>2,790,755</u>	<u>(13,363)</u>
Net Cash Provided By (Used In) Financing Activities		
Net (Decrease) Increase in Cash	(125,605)	25,121
CASH - BEGINNING OF YEAR	<u>874,276</u>	<u>849,155</u>
CASH - END OF YEAR	<u>\$ 748,671</u>	<u>\$ 874,276</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid during the year	<u>\$ 40,334</u>	<u>\$ 19,763</u>

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



**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

**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, 2015 AND 2014**

**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, 2015 and 2014.

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, 2015 AND 2014**

**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, 2015, 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 2012.

**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, 2015 and 2014.

**NOTE 4 - INVESTMENTS**

All donated investments were sold by year-end; therefore, no investments were held by the Organization at December 31, 2015 or 2014. Realized gains on the liquidation of donated investments totaled \$766 and \$26 during 2015 and 2014, respectively.

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

**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.

**NOTE 6 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<b>2015</b>	<b>2014</b>
Land	\$ 315,000	\$ 315,000
Building and improvements	1,056,346	1,056,346
Transportation vehicles	129,101	129,101
Office equipment	28,608	21,875
Facility equipment	29,694	29,694
Classroom equipment	19,778	18,678
Furniture	<u>11,374</u>	<u>11,374</u>
	1,589,901	1,582,068
Accumulated depreciation	<u>(451,389)</u>	<u>(418,262)</u>
	<u>\$ 1,138,512</u>	<u>\$ 1,163,806</u>

Depreciation expense was \$34,067 and \$46,518 for 2015 and 2014, 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 calls for interest only payments at an interest rate of 3.25% until October 11, 2016 at which time monthly principal and interest payments of \$18,216 begin. On September 11, 2016 the interest rate adjusts to 3.40%. A final balloon payment is due September 11, 2021. The loan is collateralized by the real property being financed.

Scheduled principal repayments on the note payable are as follows:

Year Ending December 31,

2016	\$ 29,092
2017	118,759
2018	122,676
2019	126,723
2020	130,904
Thereafter	<u>2,626,846</u>
	<u>\$ 3,155,000</u>

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

**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:

	<b>2015</b>	<b>2014</b>
Included in:		
Unrestricted contributions/expenses		
Supplies and services	\$ 20,937	\$ 16,280
Direct product costs	125	-
Restricted contributions/expenses		
Maintenance	750	-
Special events/expenses		
Prizes, fees and materials	<u>24,810</u>	<u>23,953</u>
	<u>\$ 46,622</u>	<u>\$ 40,233</u>

Additionally, in-kind contributions for auction items were received and recorded as assets that totaled \$12,810 and \$8,332 for 2015 and 2014, 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:

	<b>2015</b>	<b>2014</b>
Capital campaign	\$ 205,128	\$ 172,525
Ferrell home	156,400	-
Programming and improvement grants	18,500	23,783
Bus fund	16,930	-
Music fund	<u>7,788</u>	<u>4,330</u>
	<u>\$ 404,746</u>	<u>\$ 200,638</u>

**BRIGHTSTONE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

**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 2015 or 2014.

**NOTE 12 - EVALUATION OF SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through April 28, 2016 which is the date the financial statements were available to be issued.