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STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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November 12, 2014

Board of Directors
Centerstone of Indiana, Inc.
645 S. Rogers Street
Bloomington, IN 47403

We have reviewed the audit report prepared by Blue & Co., LLC, for the period July 1, 2010 to June 30, 2011. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Centerstone of Indiana, Inc., as of June 30, 2011, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

CENTERSTONE

CENTERSTONE OF INDIANA, INC.

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2011 AND 2010

CPAs / ADVISORS

blue

CENTERSTONE OF INDIANA, INC.

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CPAs · ADVISORS

blue

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Centerstone of America, Inc.
Bloomington, Indiana

We have audited the accompanying consolidated statements of financial position of Centerstone of Indiana, Inc. (the Center) as of June 30, 2011 and 2010 and the related statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Guidelines for Examinations of Entities Receiving Financial Assistance from Governmental Sources, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Center as of June 30, 2011 and 2010, and its consolidated changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Notes 1 and 2 to the consolidated financial statements, the Center is part of an affiliated group of entities. The Center is included in the reporting entity, Centerstone of America, and these consolidated financial statements include only the financial position, changes in net assets and cash flows of the Center.

Board of Directors
Centerstone of America, Inc
Bloomington, Indiana

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2011, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements of the Center. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

December 6, 2011

CENTERSTONE OF INDIANA, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

ASSETS

	2011	2010
Current assets		
Cash and cash equivalents	$ 14,053,593	$ 10,060,496
Accounts receivable, net	1,156,222	1,559,704
Other receivables	3,943,204	4,731,028
Due from affiliated entities	525,668	-0-
Unconditional promises to give, net	1,041,695	-0-
Prepaid expenses and other current assets	189,114	181,905
Total current assets	20,909,496	16,533,133
Property and equipment, net	21,789,283	20,016,976
Other assets	170,337	184,535
Unconditional promises to give, net	2,561,509	-0-
Assets whose use is limited	228,075	253,677
Total assets	$ 45,658,700	$ 36,988,321

LIABILITIES AND NET ASSETS

	2011	2010
Current liabilities		
Current portion of long term debt	$ 450,080	$ 375,582
Accounts payable and accrued expenses	1,804,703	869,604
Estimated third party settlements	1,808,178	2,779,753
Due to affiliated entities	-0-	1,883,111
Accrued payroll, benefits and taxes	3,712,704	3,459,053
Total current liabilities	7,775,665	9,367,103
Long term debt		
Revenue bonds, net of current portion	4,150,000	4,500,000
Other long term debt, net of current portion	3,939,188	1,053,936
Total long term debt	8,089,188	5,553,936
Other liabilities	278,118	298,900
Agency liabilities	3,703,780	-0-
Derivative liabilities	112,925	206,547
Total liabilities	19,959,676	15,426,486
Total net assets		
Unrestricted	22,598,320	21,561,835
Temporarily restricted	3,100,704	-0-
Total net assets	25,699,024	21,561,835
Total liabilities and net assets	$ 45,658,700	$ 36,988,321

CENTERSTONE OF INDIANA, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Revenue, gains and other support		
Net client service revenue	$ 22,985,146	$ 24,898,359
Grants from governmental agencies		
U.S. Department of Housing and Urban Development	332,964	327,446
Medicaid administrative outreach	2,535,270	3,044,654
Division of Mental Health	14,706,107	16,003,079
County funds	2,908,710	3,043,864
Other grant revenue	7,831,035	5,114,920
Total grants from governmental agencies	28,314,086	27,533,963
Rental value of donated facility	980,551	1,000,162
Other	1,659,510	1,863,562
Total other support	2,640,061	2,863,724
Total revenue, gains and other support	53,939,293	55,296,046
Expenses		
Salary and fringe benefits	31,363,761	34,394,112
Telephone	1,245,225	913,560
Travel	1,369,986	1,418,358
Drugs and supplies	802,165	828,861
Printing and postage	76,758	118,618
Contracted services	1,244,580	2,382,904
Purchased services	209,419	348,063
Utilities	673,535	676,451
Repairs and maintenance	1,479,960	1,702,222
Affiliated management fees	6,988,860	4,712,089
Rents and leases	1,530,672	1,549,729
Depreciation and amortization	1,172,462	1,341,789
Insurance	669,920	457,764
Bad debt	2,403,559	2,111,597
Interest	199,602	369,229
Miscellaneous	1,489,453	1,673,601
Total expenses	52,919,917	54,998,947
Operating income	$ 1,019,376	$ 297,099

See accompanying notes to consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Nonoperating revenues and expenses		
Foundation related expenses	$ (876,619)	$ -0-
Contributions and pledges	405,317	-0-
Other	501,972	6,966
Investment income, net	14,663	86,591
Net assets released from restriction	194,296	-0-
Unrealized gain (loss) on derivatives	93,622	(30,756)
Total nonoperating revenues and expenses	333,251	62,801
Excess of revenue over (under) expenses before discontinued operations	1,352,627	359,900
Discontinued operations		
Gain (loss) from operations of discontinued Madison location (including loss on disposal of assets of $9,027 in 2011)	(137,629)	29,345
Excess of revenue over (under) expenses	1,214,998	389,245
Other changes in net assets		
Equity transfer with Centerstone of Tennessee	247,340	-0-
Equity transfer with Centerstone Research Institute	(425,853)	35,977
Change in unrestricted net assets	1,036,485	425,222
Temporarily restricted		
Contributions and pledges	3,295,000	-0-
Net assets released from restrictions	(194,296)	-0-
Change in temporarily restricted net assets	3,100,704	-0-
Change in net assets	4,137,189	425,222
Net assets, beginning of year	21,561,835	21,136,613
Net assets, end of year	$ 25,699,024	$ 21,561,835

See accompanying notes to consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Operating activities		
Change in net assets	$ 4,137,189	$ 425,222
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization (including $5,722 included in discontinued operations in 2010)	1,172,462	1,347,511
Unrealized (gain) loss on derivative	(93,622)	30,756
Bad debt	2,403,559	2,111,597
Equity transfer with Centerstone Research Institute	425,853	(35,977)
Restricted contributions and pledges	(3,295,000)	-0-
Changes in operating assets and liabilities		
Accounts receivable, net	(2,000,077)	(5,896)
Due to/from affiliates	(2,408,779)	2,333,182
Other receivables	787,824	(1,290,341)
Unconditional promises to give, net	(3,603,204)	-0-
Prepaid expenses and other current assets	(7,209)	223,941
Accounts payable and accrued expenses	935,099	(239,882)
Estimated third party settlements	(971,575)	1,434,824
Accrued payroll, benefits and taxes	253,651	(163,320)
Agency liabilities	3,703,780	-0-
Other liabilities	(20,782)	150,809
Net cash flows from operating activities	1,419,169	6,322,426
Investing activities		
Change in other assets	14,198	(12,645)
Purchase of property and equipment	(2,944,769)	(499,332)
Change in assets whose use is limited, net	25,602	(8,893)
Net cash flows from investing activities	(2,904,969)	(520,870)
Financing activities		
Equity transfer with Centerstone Research Institute	(425,853)	35,977
Restricted contributions and pledges	3,295,000	-0-
Proceeds from issuance of long term debt	2,979,940	-0-
Principal payments on long term debt	(370,190)	(2,274,195)
Net cash flows from financing activities	5,478,897	(2,238,218)
Net change in cash and cash equivalents	3,993,097	3,563,338
Cash and cash equivalents, beginning of year	10,060,496	6,497,158
Cash and cash equivalents, end of year	$ 14,053,593	$ 10,060,496
Supplemental cash flows information		
Cash paid for interest	$ 199,602	$ 369,229

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Effective May 1, 2008, South Central Community Mental Health Centers, Inc. d/b/a Center for Behavioral Health changed its name to Centerstone of Indiana, Inc. (the Center). On this date, Centerstone of America, Inc. (previously Centerpoint, Inc.) became the sole member of the Center.

On January 1, 2009, Quinco Consulting Center, Inc. merged with the Center. The merger was accounted for under the pooling of interest method of accounting.

On January 1, 2010, Dunn Mental Health Center, Inc and its affiliate Independent Living Alternatives, Inc. d/b/a Cumberland Apartments (Cumberland) merged with the Center. The merger was accounting for under the pooling of interest method of accounting and the impact on the 2010 and the previously issued 2009 consolidated financial statements is summarized as follows. Total assets and net assets as of December 31, 2009 were $11,426,804 and $8,321,091, respectively. Total revenue and change in net assets for the period July 1, 2009 through December, 31, 2009 were $7,942,848 and $110,989, respectively.

The Center was incorporated as a not-for-profit organization in June 1967 under the laws of the State of Indiana and commenced operations in August 1968. The Center is responsible for the establishment, operation and maintenance of a comprehensive mental health center which focuses on the treatment and prevention of mental illness and emotional disturbances of individuals. These services are provided to children and adults upon application or referral. The Center employs qualified psychiatrists, psychologists, social workers and others to consult with and treat individuals using the facilities of the Center. These services are currently delivered through community clinics located throughout many counties in Indiana and include outpatient care, consultation, screening, 24-hour emergency services, community education, a detoxification program with inpatient treatment and residential services to area residents. The Center received a majority of its revenue from client services and federal, state and county grants.

Principles of Consolidation

The consolidated financial statements include the accounts of Centerstone of Indiana, Inc., Centerstone Foundation, Inc., Behavioral Health Organizations of Indiana, LLC. (BHOI), Independent Living Alternatives, and Centerstone Supportive Housing, LLC (Supportive Housing).

The Center is the sole member of Centerstone Foundation, Inc. Centerstone Foundation, Inc. is a not-for-profit organization that receives contribution and support for the affiliated entities of Centerstone of America, Inc. Centerstone Foundation received a oversight and agency duties from Centerstone of Tennessee, Inc during 2011. See Note 2.

The Center owns two-thirds interest in BHOI. Minority interest included in net assets at June 30, 2011 and 2010 is $148,759 and $226,102, respectively.

Centerstone Supportive Housing, LLC (Supportive Housing) was incorporated on October 15, 2010 in the State of Indiana and may conduct any and all lawful business and activities as long as they are consistent with the charitable purposes or status of the sole member, Centerstone of Indiana, Inc. Supportive Housing was formed to develop, own and operate a 60-unit affordable housing rental project (Project). During the 2011, Supportive Housing received an American Recovery and Reinvestment Act of 2009 (ARRA) Section 1602 Tax Credit Exchange Program mortgage administered through the Indiana Housing Community Development Authority. Draws on the mortgage related to the construction amounted to $2,979,940 on an approved budget of $7,486,249 as of June 30, 2011. The Center, as Developer of the project has earned and recorded $500,000 for the year ended June 30, 2011.

Independent Living Alternatives and Supportive Housing are consolidated due to member status and their Board of Directors' composition of the Center's members and management personnel. All material intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

Financial statement presentation follows the recommendations outlined in the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) for Non-Profit Entities. The Center is required to report information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and temporarily restricted net assets and to distinguish between contributions that increase temporarily restricted net assets and unrestricted net assets.

Affiliated Entities And Related Parties

The Center is part of an affiliated group of entities. The Center is included in the reporting entity, Centerstone of America (Parent), and these consolidated financial statements include only the financial position, changes in net assets and cash flows of the Center and its subsidiaries.

Centerstone of America, Inc. is the holding company of the Center. Centerstone of America has the following additional entities under common control: Advantage Behavioral Health, Johnson Nichols, Not Alone, Inc., Centerstone of Tennessee Inc., and Centerstone Research Institute, Inc.

Advantage Behavioral Health is a not-for-profit organization that provides administrative services and support to behavioral health organizations. Advantage Behavioral Health is a Sister Corporation of the Center.

Johnson Nichols is a health clinic where the Center pays the salaries generated at Johnson Nichols and is reimbursed accordingly. Johnson Nichols is a Sister Corporation of the Center.

Not Alone, Inc. provides counseling services to returning members of the armed forces. Not Alone, Inc. is a Sister Corporation of the Center.

Centerstone of Tennessee, Inc. is a community mental health center with locations in various counties in Tennessee. Included within Centerstone of Tennessee Inc. are its subsidiaries which include Centerstone Endowment Trust and Cumberland Holding Corp. Centerstone of Tennessee, Inc. is a Sister Corporation of the Center.

Centerstone of America, Inc. is the holding company (Parent Corporation) of the Center.

Centerstone Research Institute, Inc. is a research, benchmarking and information technology consulting corporation dedicated to improving health care delivery through the marriage of research and information technology. Centerstone Research Institute, Inc. is a Sister Corporation of the Center.

The Center is a management agent and sponsor of six multifamily residential apartments and two supervised living group homes for the mentally ill.

Red Oak Industries, is a not-for-profit organization that provides cleaning services. Certain members of management serve on the board of directors for Red Oak.

Net Asset Classifications

The consolidated financial statements have been prepared in accordance with the Not-For-Profit Organizations Topic of the Statement of Financial Accounting Standards, *Financial Statements of Not-For-Profit Organizations*. The topic requires, among other things, that the financial statements report the changes in and total of each of the net asset classes, based upon donor restrictions, as applicable. Net assets are to be classified as unrestricted, temporarily restricted, and permanently restricted.

The following class of net assets is maintained:

Unrestricted Net Assets

The unrestricted net asset class includes general assets and liabilities of the Center. The unrestricted net assets of the Center may be used at the discretion of management to support the Center's purposes and operations.

Temporarily Restricted Net Assets

The Center's temporarily restricted net assets consist of contributions and pledges received by Centerstone Foundation, Inc.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Center considers all liquid investments with an original maturity of three months or less to be cash equivalents. The Center maintains these deposits with banks. At times, these deposits may exceed federally insured limits. The Center believes it is not exposed to any significant credit risk on cash and cash equivalents.

Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Center that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Center uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Donor Support

The Center reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service, as instructed by the donor. The Center reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Other Receivables

The Center has recorded receivables from federal and state agencies related to grants under contract. The Center expects full collection of these receivables

Investments and Investment Income

Investments in equity securities and debt securities are measured at fair value in the balance sheets. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Unrealized and realized gains and losses on investments, interest, and dividends from all investments are reported as a component of the performance indicator unless the income is restricted by donor or law.

Assets Whose Use Is Limited

Assets whose use is limited consists of funds that have been designated by the board to be used to acquire buildings, property and equipment and funds held by the trustee for debt service. At June 30, 2011 and 2010, the funds are held by trustee for debt service are $228,075 and $253,677, respectively. The funds consist of cash and cash equivalents, certificates of deposit, corporate bonds and mutual funds.

Performance Indicator and Operating Indicator

The consolidated statements of activities and changes in net assets include a performance indicator, excess of revenue over (under) expenses. Changes in unrestricted net assets which would be excluded from the performance indicator include equity transfers from affiliated parties and changes in unrealized gains (losses) on other than trading securities. The consolidated statements of activities and changes in net assets also include an operating indicator, operating income (loss). Certain nonoperating items are excluded from the operating indicator including Centerstone Foundation, Inc. expenses, contributions and pledges, other income, investment income (loss), gains and losses on investments, nonoperating net assets released from restriction, contributions to affiliates, unrealized gains (losses) on derivatives, and gains (losses) on disposal of equipment.

Advertising Cost

The Center uses advertising to promote its programs and services among the clients it serves. The advertising costs are expensed as incurred. Advertising costs totaled $91,762 and $133,688 for June 30, 2011 and 2010, respectively.

Property and Equipment

Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost. The Center provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over estimated useful lives as follows:

	Years
Furniture and equipment	3-10
Leasehold improvements	10
Buildings	18-30
Building and land improvements	5-20

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the performance indicator, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Bond Issuance Costs

Other assets include bond issuance costs of approximately $260,000 and related accumulated amortization of approximately $100,000 and $93,000 as of June 30, 2011 and 2010, respectively, related to variable rate demand revenue bonds. Amortization expense was approximately $13,000 for the years ended June 30, 2011 and 2010. The expected expense for each of the next 12 years will be approximately $13,000. Amortization expense is accounted for using the straight-line method over the life of the bond.

Net Client Service Revenue and Accounts Receivable

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges, and per diem payments. Net client service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under agreements with third-party payors for audits. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. No accrual is made for those retroactive adjustments that are not reasonably estimable.

The Center estimates an allowance for doubtful accounts based on an evaluation of historical adjustments and losses, current economic conditions and factors unique to payor situations. The Center's allowances as of June 30, 2011 and 2010 were $1,785,833 and $567,372, respectively.

Included in net patient service revenue are reimbursements from Medicare, Medicaid, Commercial payors and self-pay patients. As part of the Medicaid program, the Center participates in the Medicaid Rehabilitation Option (MRO). The MRO program includes a Federal portion and a State portion. As part of the State plan, the Center pays the State portion.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Given the current regulatory and reimbursement environment, there can be no assurances that adequate reimbursement levels will continue to be available for the services provided by the Center. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on the Center's liquidity, financial condition, results of operations, and cash flows.

Medicaid Funds Recovery

The Center participates in the Medicaid Funds Recovery Program. Funding for the Medicaid Funds Recovery Program is available through the Medicaid Program for certain administrative activities. Funding under the Medicaid Funds Recovery Program is available only to those providers who are certified as Managed Care Providers or Community Mental Health Centers by the Division of Mental Health and Addiction.

Public Support

The Center receives federal and state grants for providing services in specific program areas. Receipt of these funds is subject to the fulfillment of certain obligations by the Center as prescribed by these programs and funds may be subject to repayment upon a determination of noncompliance made by a funding agency.

Indiana state law stipulates that the counties served by comprehensive community mental health centers provide the centers with a minimum designated amount. Tax receipts are designated to be remitted to the centers by June and December of each year. The Center recognizes the county tax receipts as income in the period the funds are due from the counties. Accordingly, amounts are recorded as other receivables or deferred revenue based upon the timing of the actual receipts.

The Center receives federal, state and other grants for providing services in specific program areas. Receipt of these funds is subject to the fulfillment of certain obligations by the Center as prescribed by these programs and funds may be subject to repayment upon a determination of noncompliance made by a funding agency. These amounts are also recorded as public support. Any amounts due to the Center for these funds and programs are included in other receivables in the statements of financial position.

The Center derives a significant portion of its revenue from third-party payors and federal and state funding programs. The receipt of future revenues by the Center is subject to among other factors, Federal and state policies affecting the health care industry, economic conditions that may include an inability to control expenses in periods of inflation, increased competition, market pressures on premium rates and other conditions which are impossible to predict.

Contributions to Affiliates

Centerstone Foundation, Inc. sends contribution support to affiliated entities to help further the mission of those organizations. Amounts will be eliminated upon consolidation of these financial statements and the consolidated financial statements of Centerstone of America, Inc.

Estimated Third Party Settlements

Estimated third party liabilities for Medicare, Medicaid, Medicaid Rehabilitation Option (MRO), grants and other programs reflect the difference between interim reimbursement and reimbursement as determined by contractual agreements and third-party audits. Based upon payments received from Medicare, Medicaid, MRO, grants and other programs, the Center has estimated and recorded a liability of $1,808,178 and $2,779,753 as of June 30, 2011 and 2010, respectively.

Agency Liabilities

Centerstone Foundation, Inc. serves as an agent, primarily on behalf of Centerstone of Tennessee, Inc. for certain donor restricted funds which were transferred. The Foundation transfers the assets to Centerstone of Tennessee, Inc. in accordance with the stipulated donor restrictions.

Other Liabilities

Other liabilities include a litigation settlement liability related to a lost appeal related to county tax revenues. See Note 14 for further details.

Charity Care

The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The charity care amounts are not reported as net client service revenue as the Center does not pursue collection.

Federal and State Income Taxes

The Center and its subsidiaries are principally organized as a not-for-profit corporations under section 501(c) (3) of the United States Internal Revenue Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability if an uncertain position is more likely than not to not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken and has concluded that as of June 30, 2011 and 2010, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Center and its subsidiaries are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

As such, the Center and its subsidiaries are generally exempt from income taxes and are required to file Federal Form 990-Return of Organization Exempt from Income Tax which is an informational return only.

Subsequent Events

The Center evaluated events or transactions occurring subsequent to the consolidated statement of financial position date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is December 6, 2011.

Reclassifications

Certain information from 2010 has been reclassified to conform to the current year presentation.

2. AFFILIATED ENTITIES AND RELATED PARTY TRANSACTIONS

The Center entered into certain working capital, administrative and general transactions with its Parent and Sister Corporations as are disclosed in Note 1. The Center has recorded a related receivable in the amount of $525,668 as of June 30, 2011 and a payable in the amount of $1,883,111 as of June 30, 2010. For the years ended June 30, 2011 and 2010, the Center incurred affiliated management fees in the amount of $6,988,860 and $4,712,089, respectively, for services provided by its Parent Corporation. For the years ended June 30, 2011 and 2010, the Center incurred malpractice and liability insurance coverage in the approximate amount of $669,000 and $450,000 respectively, which is paid by the Parent Corporation and then reimbursed by the Center.

Centerstone of Tennessee transferred oversight and agency function to Centerstone Foundation, Inc. comprised of unconditional promises to give in the amount of $2,298,358 and due to/from amounts in the amount of $2,381,873 for a total of $4,680,231 during 2011. The funds were recorded as an agency liability. The balance in the related agency liability as of June 30, 2011 is $3,703,780 after certain funds were returned for usage to Centerstone of Tennessee in the amount of $976,451 in accordance with donor stipulations.

The Center transferred cash and accounts receivable in the amount $425,853 during 2011 to Centerstone Research Institute as the assets related to its mission.

The Center is a management agent and sponsor of six multifamily residential apartments and two supervised living group homes for the mentally ill. Each of these eight communities is a separate not-for-profit corporation. Management revenue of approximately $105,000 was recorded during June 30, 2011 and 2010.

The Center contracts with Red Oak Industries, a 501(c)(3) not-for-profit organization, to provide cleaning services. Certain members of management serve on the board of directors for Red Oak. The Center has recorded management fees in the amount of approximately $80,000 during June 30, 2011 and 2010.

The Center has recorded an investment in Red Oak of $10,000 at June 30, 2011 and 2010, respectively. The Center has recorded a related receivable in the amount of $6,251 and $2,205 as of June 30, 2011 and 2010, respectively.

3. ASSETS WHOSE USE IS LIMITED

The composition of assets limited as to use at June 30, 2011 and 2010 is set forth in the following table. Investments are stated at fair value except certificates of deposit which are reported at contract value.

	2011	2010
Assets Whose Use Is Limited		
Cash and cash equivalents	$ 95,272	$ 68,029
Certificates of deposit	60,000	120,000
Corporate bonds	59,303	52,148
Mutual funds	13,500	13,500
	$ 228,075	$ 253,677

Investment income included on the consolidated statements of activities and changes in net assets consists of the following for 2011 and 2010:

	2011	2010
Interest and dividends	$ 14,663	$ 86,591

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

- Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. The fair value of the mutual funds is based on quoted net asset values of the shares held by the Center at year-end.

- Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. The fair value of the interest rate swap (derivative liability) is based upon interest rate yield curve models.
- Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement. Assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 and 2010 are as follows:

	June 30, 2011			
Assets	Total	Level 1	Level 2	Level 3
Assets limited as to use				
Corporate bonds	$ 59,303	$ -0-	$ 59,303	$ -0-
Mutual funds	13,500	13,500	-0-	-0-
	72,803	$ 13,500	$ 59,303	$ -0-
Cash and cash equivalents	95,272			
Certificates of deposit *	60,000			
	$ 228,075			

	Total	Level 1	Level 2	Level 3
Liabilities				
Derivative liability	$ 112,925	$ -0-	$ 112,925	$ -0-

* Certificates of deposit are reported at contract value

	June 30, 2010			
Assets	Total	Level 1	Level 2	Level 3
Assets limited as to use				
Corporate bonds	$ 52,148	$ -0-	$ 52,148	$ -0-
Mutual funds	13,500	13,500	-0-	-0-
	65,648	$ 13,500	$ 52,148	$ -0-
Cash and cash equivalents	68,029			
Certificates of deposit *	120,000			
	$ 253,677			

	Total	Level 1	Level 2	Level 3
Liabilities				
Derivative liability	$ 206,547	$ -0-	$ 206,547	$ -0-

* Certificates of deposit are reported at contract value

The following methods and assumptions were used by the Center in estimating the fair value of its financial instruments:

- Cash and cash equivalents, accounts receivable, accounts payable, estimated third party settlements and accrued expenses: The carrying amount reported in the consolidated statements of financial position for cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and estimated third party settlements approximate fair value based on short-term maturity.

- Long-term debt: Fair value of the Center's variable rate notes payable is based on current value. Fair value of the Corporation's fixed rate notes payable is estimated by using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Center's remaining long-term debt approximates carrying value based on the relatively short maturities and variable nature of the primary debt.

5. PROPERTY PLANT AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	2011	2010
Land	$ 2,347,023	$ 2,142,747
Buildings and improvements	28,176,617	25,212,735
Furnishings and equipment	10,167,187	10,270,806
Construction in progress	-0-	230,048
	40,690,827	37,856,336
Accumulated depreciation and amortization	(18,901,544)	(17,839,360)
	$ 21,789,283	$ 20,016,976

6. PROMISES TO GIVE

Promises to give consist of pledges restricted to the support of the Centerstone Foundation, Inc., which supports all the organizations within Centerstone of America, Inc. Promises to give are adjusted to the present value of the estimated future cash flows using a discount rate of 6% and also include an allowance for estimated uncollectable pledges.

	2011	2010
Pledges receivable	$ 4,490,453	$ -0-
Net present value discount	(547,143)	-0-
Allowance for uncollectible pledges	(340,106)	-0-
	$ 3,603,204	$ -0-

Amounts due in:		
Less than one year	$ 1,041,695	$ -0-
One to five years	2,561,509	-0-
	$ 3,603,204	$ -0-

7. LONG TERM DEBT

Long term debt consists of the following:

	2011	2010
Indiana Department Finance Authority Series 2002 variable rate demand economic development revenue bonds, variable interest rate, .43% at June 30, 2011, $200,000 redeemed on December 1st each year, final payment due December 2022, collateralized by real estate, equipment and accounts receivable.	$ 2,400,000	$ 2,600,000
Note payable to Community Foundation of Bloomington and Monroe County, 2% fixed rate, due on February 1, 2012, payable in monthly installments of $644 with balloon payment due on February 1, 2012, collateralized by real estate.	74,241	80,420
Mortgage loans through certain state and local programs, interest free with property restricted to a specific use. Debt is amortized over 10 - 20 years and is collateralized by real estate.	27,500	35,000
Mortgage loan with U.S. Department of Housing and Urban Development. Monthly installments of principal and interest are $11,000 with a maturity date of July 1, 2031. Interest is being charged at 9.25%. Collateralized by certain real estate.	538,845	547,265
Note payable, 7% fixed interest rate, payable in monthly installments of $3,076 due September 2032, collateralized by real estate.	407,606	421,833
Mortgage payable to Indiana Housing & Community Development Authority, 0% interest, due 2026, forgiven over a 15 year period, collateralized by real estate.	2,979,940	-0-
Series 2001 Revenue Bonds, variable interest rate, .47% at June 30, 2011, principal maturing in varying annual amounts through December 2021, collateralized by a mortgage on certain real estate.	2,111,136	2,245,000
	8,539,268	5,929,518
Current portion	(450,080)	(375,582)
Total long term debt	$ 8,089,188	$ 5,553,936

The bonds are secured by letters of credit supported by the underlying real estate, inventory, equipment and intangibles.

The 2002 bonds are secured by a letter of credit. Under the terms of the letter of credit and reimbursement agreement, the Center is required to maintain certain financial covenants. Management believes the Center is in compliance with all of the required financial covenants. In the event of a failed remarketing, the letter of credit is due in 367 days. The letter of credit has a maturity date of December 15, 2014.

The 2001 bonds are secured by a letter of credit. Under the terms of the letter of credit and reimbursement agreement, the Center is required to maintain certain financial covenants. Management believes the Center is in compliance with all of the required financial covenants. In the event of a failed remarketing, the letter of credit is due in 367 days. The letter of credit has a maturity date of December 1, 2014.

The mortgage loan with the Indiana Housing & Development Authority was made possible with the ARRA dollars mentioned above. The loan is interest free and forgivable over a 15 year period so long as Supportive Housing manages and operates the Project for its intended purpose.

The future maturities of long-term debt are as follows for the years ending June 30:

2012	$	450,080
2013		637,400
2014		644,096
2015		653,439
2016		655,444
Thereafter		5,498,809
	$	8,539,268

8. NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30, 2011:

	2011	2010
Dede Wallace Campus	$2,300,704	$ -0-
Research	800,000	-0-
	$3,100,704	$ -0-

9. DERIVATIVE INSTRUMENTS

Effective June 1, 2005, the Center entered into an "interest rate swap" with a financial institution. The Center pays a fixed rate interest of 3.7% and the financial institution pays the variable rate, .43% at June 30, 2011, related to the IDFA series 2002 bonds. The term of the swap is 10 years with a beginning notional amount of $2,000,000, which decreases by $100,000 in December each year. The notional amount was $1,300,000 and $1,500,000 at June 30, 2011 and 2010, respectively.

Effective July 1, 2010, an interest rate swap with Fifth Third bank matured and subsequently terminated. The original term of the swap was 9 years with a beginning notional amount of $3,100,000, with accreting and amortization in accordance with the swap agreement. There was no realized gain or loss at swap termination.

The derivatives are reported in the balance sheet as derivative liabilities.

The fair values of derivatives recorded in the balance sheet are as follows:

	June 30, 2011	
	Assets	Liabilities
Interest rate swap agreements	$ -0-	$ 112,925

	June 30, 2010	
	Assets	Liabilities
Interest rate swap agreements	$ -0-	$ 206,547

During 2011 and 2010, the unrealized gain (loss) recognized in the statement of activities and changes in net assets was $93,622 and $(30,756), respectively.

These derivatives are not designated as hedging instruments, and are marked-to-market on the consolidated balance sheet at fair value. The related gains and loss are included in the performance indicator for the reporting period. Cash flows from interest rate swap contracts are classified as an operating activity on the consolidated statement of cash flows.

10. CHARITY CARE AND BAD DEBT

The amount of charges foregone for services provided under the Center's charity care policy aggregated $2,237,736 and $2,711,937 in 2011 and 2010, respectively. These amounts include reductions in fees based on the client's ability to pay and client services performed free of charge. Additional amounts of $2,403,559 and $2,111,597 were recognized as bad debt expense in 2011 and 2010, respectively.

11. FUNCTIONAL EXPENSES

The Center provides behavioral health care services to residents within its geographic location. Expenses related to these services are as follows:

	2011	2010
Behavioral health care services	$ 45,731,455	$ 46,826,225
General and administrative	7,188,462	8,172,722
	$ 52,919,917	$ 54,998,947

12. DEFINED CONTRIBUTION PROGRAM

The Center has a defined-contribution program. Contributions to the plan are made for substantially all of its employees who meet eligibility requirements. The Center decreased the amount contributed from 5% to 3% of each eligible employee's gross wage during 2011. Expense under the plan was approximately $569,997 and $824,892 for 2011 and 2010, respectively.

13. DISCONTINUED OPERATIONS

During 2011, BHOI discontinued operations of its Madison group home. The operations of the home were discontinued as a result of the operating losses and negative cash flows. The lease for the Madison home was terminated as of February 1, 2011, but BHOI was required to pay the remaining portion of rent due on the lease, which totaled $24,100. Certain fixed assets of the BHOI were sold for total cash proceeds of approximately $1,150. Total loss on fixed assets for the Madison home was $9,027. The losses from the discontinued Madison group home are shown as discontinued operations in the Statement of Activities and Changes in Net Assets.

14. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Center has several non-cancelable operating leases, for certain operating facilities and equipment through 2016.

Future minimum lease payments under operating leases are as follows for the years ending June 30:

2012	$ 66,494
2013	28,800
2014	7,800
2015	7,800
2016	7,150
Total minimum lease payments	$ 118,044

Total rent expense was $1,530,672 and $1,549,729 for the years ended June 30, 2011 and 2010, respectively.

Monroe County constructed the Bloomington facility, which was completed in July 1982, and entered into lease agreement with the Center for $1 per year. The property reverts to the County if the Center ceases to use it for certain specified purposes. The fair market value of the facility space provided by the lease is included as revenue and expense in the consolidated statement of activities.

Medical Malpractice Claims

The Center purchases professional and general liability insurance to cover medical malpractice claims. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The State of Indiana puts a judgment cap of $1,250,000 on malpractice claims for those institutions and individual physicians willing to participate in the state funded insurance "pool." The "pool" requires that an institution/physician be responsible for the first $250,000 of every claim and the State will fund the remaining balance of each claim.

Self-Insurance

The Center has elected to act as a self-insurer for certain costs related to employee health, dental and accident benefit programs. Expenses resulting from claims experience are recorded as incurred including an estimate of claims incurred but not reported. The related expense for the years ended June 30, 2011 and 2010 aggregated $3,945,004 and $4,214,577 respectively. The Center has purchased insurance, which limits its exposure on a per individual basis of $125,000 and on an aggregate basis of approximately $5,659,000.

Litigation

A contractor of the State of Indiana previously conducted certain audits related to documentation supporting claims billed under the Medicaid Rehabilitation Option. The Center has engaged legal counsel and has filed a request for an administrative appeal for the audit findings. Management has included a related provision as part of Estimated Third Party Settlements.

During 2008, Quinco and Jefferson County, Indiana lost an appeal relating to county tax revenues being remitted to Quinco rather than another community mental health center. The settlement requires that Jefferson County pay the other center the county funds through October 2009. Commencing in November 2009, the other center and Quinco are to each receive 50% of the county funds. Quinco was also required to pay Jefferson County, beginning in November 2009, 50% of the county funds which would have otherwise gone to Quinco until the amount of $435,979 is paid in full or if there was a change in the county funding mechanism at least $35,000 annually until the liability is paid in full. As described in Note 1, Qunico was merged into the Center during 2009 and as result, as of June 30, 2011 and 2010, the Center, has recorded a liability of $278,118 and $298,900, respectively, which is the estimated present value of the related liability.

The Center is involved in certain other litigation arising in the ordinary course of business. After consultation with legal counsel, it is management's opinion that these matters will be resolved without material adverse effect on the Center's financial condition, results of operations, and cash flows.

Guarantee

The Center is a guarantor along with certain other Sister corporations to a line of credit providing maximum borrowings of $3,500,000 issued to the Parent corporation with a term extending through May 27, 2012. Any draws bear interest at 3.25%. There were no borrowings at June 30, 2011 and 2010. Should the Center be required to pay any portion of the total amount of the loans it has guaranteed, the Center could attempt to recover some or the entire amount from guaranteed parties. The Center holds patient accounts receivable as collateral in respect of the guarantees.

15. NET SERVICE REVENUE

The Center has agreements with third-party payors including Medicare, Medicaid and the State of Indiana and other commercial insurance carriers that provide for payments to the Center at amounts different from its established rates. The following is a schedule of gross service charges by category, charity care and contractual adjustments incurred during 2011 and 2010:

	2011	2010
Gross client service revenue	$ 43,124,531	$ 51,866,098
Medicaid Rehabilitation Option match	(6,972,731)	(7,815,066)
Deductions from client service revenue including charity care	(13,166,654)	(19,152,673)
Net client service revenue	$ 22,985,146	$ 24,898,359

16. CONCENTRATIONS OF CREDIT RISK

The Center's main offices are located in Bloomington and Columbus, Indiana. The Center grants credit without collateral to its clients, most of who are local residents and are insured under third-party payor agreements. Accounts receivable and revenues from clients and third-party payors were as follows:

	Receivables		Revenue	
	2011	2010	2011	2010
Medicare	9%	14%	7%	6%
Medicaid	61%	51%	65%	65%
Self pay	9%	1%	12%	11%
Other third-party payors	21%	34%	16%	18%
	100%	100%	100%	100%

17. SUBSEQUENT EVENTS

Subsequent to June 30, 2011, management of BHOI decided to discontinue all remaining operations as a result of the operating losses and negative cash flows.

SUPPLEMENTARY INFORMATION

CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS	Centerstone of Indiana, Inc	Centerstone Foundation, Inc.	BHOI	Independent Living Alternatives	Supportive Housing	Eliminations	Total
Current assets							
Cash and cash equivalents	$ 10,522,251	$ 2,827,243	$ 394,383	$ 131,793	$ 177,923	$ -0-	$ 14,053,593
Accounts receivable, net	1,156,222	-0-	-0-	-0-	-0-	-0-	1,156,222
Other receivables	3,675,659	-0-	87,068	61	180,416	-0-	3,943,204
Due from affiliated entities	421,910	421,489	-0-	-0-	-0-	(317,731)	525,668
Unconditional promises to give, net	-0-	1,041,695	-0-	-0-		-0-	1,041,695
Prepaid expenses and other current assets	180,677	-0-	8,437	-0-	-0-	-0-	189,114
Total current assets	15,956,719	4,290,427	489,888	131,854	358,339	(317,731)	20,909,496
Property and equipment, net	18,463,144	11,360	9,783	325,056	2,979,940	-0-	21,789,283
Other assets	467,855	-0-	-0-	-0-	-0-	(297,518)	170,337
Unconditional promises to give, net	-0-	2,561,509	-0-	-0-	-0-	-0-	2,561,509
Assets whose use is limited	228,075	-0-	-0-	-0-	-0-	-0-	228,075
Total assets	$ 35,115,793	$ 6,863,296	$ 499,671	$ 456,910	$ 3,338,279	$ (615,249)	$ 45,658,700
LIABILITIES AND NET ASSETS							
Current liabilities							
Current portion of long term debt	$ 440,390	$ -0-	$ -0-	$ 9,690	$ -0-	$ -0-	$ 450,080
Accounts payable and accrued expenses	1,640,075	-0-	35,663	70,598	58,367	-0-	1,804,703
Estimated third party settlements	1,808,178	-0-	-0-	-0-	-0-	-0-	1,808,178
Due to affiliated entities	-0-	-0-	17,731	-0-	300,000	(317,731)	-0-
Accrued payroll, benefits and taxes	3,626,226	86,478	-0-	-0-	-0-	-0-	3,712,704
Total current liabilities	7,514,869	86,478	53,394	80,288	358,367	(317,731)	7,775,665
Long term debt							
Revenue bonds, net of current portion	4,150,000	-0-	-0-	-0-	-0-	-0-	4,150,000
Other long term debt, net of current portion	430,093	-0-	-0-	529,155	2,979,940	-0-	3,939,188
Total long term debt	4,580,093		-0-	529,155	2,979,940	-0-	8,089,188
Other liabilities	278,118	-0-	-0-	-0-	-0-	-0-	278,118
Agency liabilities	-0-	3,703,780	-0-	-0-	-0-	-0-	3,703,780
Derivative liabilities	112,925	-0-	-0-	-0-	-0-	-0-	112,925
Total liabilities	12,486,005	3,790,258	53,394	609,443	3,338,307	(317,731)	19,959,676
Total net assets							
Unrestricted	22,629,788	(27,666)	446,277	(152,533)	(28)	(297,518)	22,598,320
Temporarily restricted	-0-	3,100,704	-0-	-0-	-0-	-0-	3,100,704
Total net assets	22,629,788	3,073,038	446,277	(152,533)	(28)	(297,518)	25,699,024
Total liabilities and net assets	$ 35,115,793	$ 6,863,296	$ 499,671	$ 456,910	$ 3,338,279	$ (615,249)	$ 45,658,700

See Report of Independent Auditors on Pages 1 and 2.

CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011

	Centerstone of Indiana, Inc	Centerstone Foundation, Inc.	BHOI	Independent Living Alternatives	Supportive Housing	Eliminations	Total
Revenue, gains and other support							
Net client service revenue	$ 22,985,146	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ 22,985,146
Grants from governmental agencies							
U.S. Department of Housing and Urban Development	332,964	-0-	-0-	-0-	-0-	-0-	332,964
Medicaid administrative outreach	2,535,270	-0-	-0-	-0-	-0-	-0-	2,535,270
Division of Mental Health	14,706,107	-0-	-0-	-0-	-0-	-0-	14,706,107
County funds	2,908,710	-0-	-0-	-0-	-0-	-0-	2,908,710
Other grant revenue	7,831,035	-0-	-0-	-0-	-0-	-0-	7,831,035
Total grants from governmental agencies	28,314,086	-0-	-0-	-0-	-0-	-0-	28,314,086
Rental value of donated facility	980,551	-0-	-0-	-0-	-0-	-0-	980,551
Other	1,356,854	-0-	465,496	146,035	-0-	(308,875)	1,659,510
Total other support	2,337,405	-0-	465,496	146,035	-0-	(308,875)	2,640,061
Total revenue, gains and other support	53,636,637	-0-	465,496	146,035	-0-	(308,875)	53,939,293
Expenses							
Salary and fringe benefits	31,298,174	-0-	321,636	-0-	-0-	(256,049)	31,363,761
Telephone	1,233,857	-0-	11,368	-0-	-0-	-0-	1,245,225
Travel	1,355,195	-0-	14,791	-0-	-0-	-0-	1,369,986
Drugs and supplies	765,460	-0-	36,705	-0-	-0-	-0-	802,165
Printing and postage	76,758	-0-	-0-	-0-	-0-	-0-	76,758
Contracted services	1,144,935	-0-	99,645	-0-	-0-	-0-	1,244,580
Purchased services	197,899	-0-	11,520	30,023	-0-	(30,023)	209,419
Utilities	664,117	-0-	9,418	16,235	-0-	(16,235)	673,535
Repairs and maintenance	1,471,746	-0-	5,844	8,938	-0-	(6,568)	1,479,960
Affiliated management fees	6,988,860	-0-	-0-	-0-	-0-	-0-	6,988,860
Rents and leases	1,511,472	-0-	19,200	-0-	-0-	-0-	1,530,672
Depreciation and amortization	1,145,194	-0-	7,438	19,830	-0-	-0-	1,172,462
Insurance	665,916	-0-	-0-	4,004	-0-	-0-	669,920
Bad debt	2,403,559	-0-	-0-	-0-	-0-	-0-	2,403,559
Interest	148,999	-0-	-0-	50,603	-0-	-0-	199,602
Miscellaneous	1,478,537	-0-	10,916	-0-	-0-	-0-	1,489,453
Total expenses	52,550,678	-0-	548,481	129,633	-0-	(308,875)	52,919,917
Operating Income (loss)	$ 1,085,959	$ -0-	$ (82,985)	$ 16,402	$ -0-	$ -0-	$ 1,019,376

CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011

	Centerstone of Indiana, Inc	Centerstone Foundation, Inc.	BHOI	Independent Living Alternatives	Supportive Housing	Eliminations	Total
Nonoperating revenues and expenses							
Foundation related expenses	$ -0-	$ (876,619)	$ -0-	$ -0-	$ -0-	$ -0-	$ (876,619)
Contributions and pledges	-0-	405,317	-0-	-0-	-0-	-0-	405,317
Other	500,000	2,000	-0-	-0-	(28)	-0-	501,972
Investment income, net	(132,413)	-0-	-0-	-0-	-0-	147,076	14,663
Net assets released from restriction	-0-	194,296	-0-	-0-	-0-	-0-	194,296
Unrealized gain (loss) on derivatives	93,622	-0-	-0-	-0-	-0-	-0-	93,622
	461,209	(275,006)	-0-	-0-	(28)	147,076	333,251
Excess of revenue over (under) expenses before discontinued operations	1,547,168	(275,006)	(82,985)	16,402	(28)	147,076	1,352,627
Discontinued operations							
Loss from operations of discontinued Madison location (including loss on disposal of assets of $9,027)	-0-	-0-	(137,629)	-0-	-0-	-0-	(137,629)
Excess of revenue over (under) expenses	1,547,168	(275,006)	(220,614)	16,402	(28)	147,076	1,214,998
Other changes in unrestricted net assets							
Equity transfer with Centerstone of Tennessee	-0-	247,340	-0-	-0-	-0-	-0-	247,340
Equity transfer with Centerstone Research Institute	(425,853)	-0-	-0-	-0-	-0-	-0-	(425,853)
Change in unrestricted net assets	1,121,315	(27,666)	(220,614)	16,402	(28)	147,076	1,036,485
Temporarily restricted							
Contributions and pledges	-0-	3,295,000	-0-	-0-	-0-	-0-	3,295,000
Net assets released from restrictions	-0-	(194,296)	-0-	-0-	-0-	-0-	(194,296)
Change in temporarily restricted net assets	-0-	3,100,704	-0-	-0-	-0-	-0-	3,100,704
Change in net assets	1,121,315	3,073,038	(220,614)	16,402	(28)	147,076	4,137,189
Net assets, beginning of year	21,508,473	-0-	666,891	(168,935)	-0-	(444,594)	21,561,835
Net assets, end of year	$ 22,629,788	$ 3,073,038	$ 446,277	$ (152,533)	$ (28)	$ (297,518)	$ 25,699,024

See Report of Independent Auditors on Pages 1 and 2.

CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010

ASSETS	Centerstone of Indiana, Inc	BHOI	Independent Living Alternatives	Eliminations	Total
Current assets					
Cash and cash equivalents	$ 9,444,582	$ 505,453	$ 110,461	$ -0-	$ 10,060,496
Accounts receivable, net	1,559,704	-0-	-0-	-0-	1,559,704
Other receivables	4,531,161	199,485	382	-0-	4,731,028
Prepaid expenses and other current assets	168,492	11,917	1,496	-0-	181,905
Total current assets	15,703,939	716,855	112,339	-0-	16,533,133
Property and equipment, net	19,652,718	28,527	335,731	-0-	20,016,976
Other assets	629,129	-0-	-0-	(444,594)	184,535
Assets whose use is limited	253,677	-0-	-0-	-0-	253,677
Total assets	$ 36,239,463	$ 745,382	$ 448,070	$ (444,594)	$ 36,988,321
LIABILITIES AND NET ASSETS					
Current liabilities					
Current portion of long term debt	$ 366,745	$ -0-	$ 8,837	$ -0-	$ 375,582
Accounts payable and accrued expenses	791,640	78,491	24,617	(25,144)	869,604
Estimated third party settlements	2,779,753	-0-	-0-	-0-	2,779,753
Due to affiliated entities	1,812,844	-0-	45,123	25,144	1,883,111
Accrued payroll, benefits and taxes	3,459,053	-0-	-0-	-0-	3,459,053
Total current liabilities	9,210,035	78,491	78,577	-0-	9,367,103
Long term debt					
Revenue bonds, net of current portion	4,500,000	-0-	-0-	-0-	4,500,000
Other long term debt, net of current portion	515,508	-0-	538,428	-0-	1,053,936
Total long term debt	5,015,508	-0-	538,428	-0-	5,553,936
Other liabilities	298,900	-0-	-0-	-0-	298,900
Derivative liabilities	206,547	-0-	-0-	-0-	206,547
Total liabilities	14,730,990	78,491	617,005	-0-	15,426,486
Net assets-unrestricted	21,508,473	666,891	(168,935)	(444,594)	21,561,835
Total liabilities and net assets	$ 36,239,463	$ 745,382	$ 448,070	$ (444,594)	$ 36,988,321

See Report of Independent Auditors on Pages 1 and 2.

CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2010

	Centerstone of Indiana, Inc	BHOI	Independent Living Alternatives	Eliminations	Total
Revenue, gains and other support					
Net client service revenue	$ 24,898,359	$ -0-	$ -0-	$ -0-	$ 24,898,359
Grants from governmental agencies					
U.S. Department of Housing and Urban Development	327,446	-0-	-0-	-0-	327,446
Medicaid administrative outreach	3,044,654	-0-	-0-	-0-	3,044,654
Division of Mental Health	16,003,079	-0-	-0-	-0-	16,003,079
County funds	3,043,864	-0-	-0-	-0-	3,043,864
Other grant revenue	5,114,920	-0-	-0-	-0-	5,114,920
Total grants from governmental agencies	27,533,963	-0-	-0-	-0-	27,533,963
Rental value of donated facility	1,000,162	-0-	-0-	-0-	1,000,162
Other	1,538,916	491,088	141,284	(307,726)	1,863,562
Total other support	2,539,078	491,088	141,284	(307,726)	2,863,724
Total revenue, gains and other support	54,971,400	491,088	141,284	(307,726)	55,296,046
Expenses					
Salary and fringe benefits	34,373,733	322,105	6,000	(307,726)	34,394,112
Telephone	903,320	10,240	-0-	-0-	913,560
Travel	1,402,387	15,971	-0-	-0-	1,418,358
Drugs and supplies	797,769	31,092	-0-	-0-	828,861
Printing and postage	118,618	-0-	-0-	-0-	118,618
Contracted services	2,302,593	80,311	-0-	-0-	2,382,904
Purchased services	300,047	15,688	32,328	-0-	348,063
Utilities	667,832	8,619	-0-	-0-	676,451
Repairs and maintenance	1,685,136	6,594	10,492	-0-	1,702,222
Affiliated management fees	4,712,089	-0-	-0-	-0-	4,712,089
Rents and leases	1,530,529	19,200	-0-	-0-	1,549,729
Depreciation and amortization	1,318,084	5,033	18,672	-0-	1,341,789
Insurance	452,066	1,629	4,069	-0-	457,764
Bad debt	2,111,597	-0-	-0-	-0-	2,111,597
Interest	318,368	-0-	50,861	-0-	369,229
Miscellaneous	1,653,394	4,300	15,907	-0-	1,673,601
Total expenses	54,647,562	520,782	138,329	(307,726)	54,998,947
Operating Income (loss)	$ 323,838	$ (29,694)	$ 2,955	$ -0-	$ 297,099

See Report of Independent Auditors on Pages 1 and 2.

CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2010

	Centerstone of Indiana, Inc	BHOI	Independent Living Alternatives	Eliminations	Total
Nonoperating revenues and expenses					
Other	$ 6,966	$ -0-	$ -0-	$ -0-	$ 6,966
Investment income, net	86,358	-0-	-0-	233	86,591
Unrealized loss on derivatives	(30,756)	-0-	-0-	-0-	(30,756)
	62,568	-0-	-0-	233	62,801
Excess of revenue over (under) expenses before discontinued operations	386,406	(29,694)	2,955	233	359,900
Discontinued operations					
Gain from operations of discontinued Madison location	-0-	29,345	-0-	-0-	29,345
Excess of revenue over (under) expenses	386,406	(349)	2,955	233	389,245
Other changes in unrestricted net assets					
Equity transfer with Centerstone Research Institute	35,977	-0-	-0-	-0-	35,977
Change in net assets	422,383	(349)	2,955	233	425,222
Net assets, beginning of year	21,086,090	667,240	(171,890)	(444,827)	21,136,613
Net assets, end of year	$ 21,508,473	$ 666,891	$ (168,935)	$ (444,594)	$ 21,561,835

CENTERSTONE OF INDIANA, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Program	Grantor	CFDA #	Expenditures
Major Programs			
Substance Abuse Prevention and Treatment (SAPT) Block Grant - Passed through the Indiana Division of Mental Health	DHHS	93.959	$ 2,370,230
Social Services Block Grant - Passed through the Indiana Division of Mental Health	DHHS	93.667	309,049
Special Supplemental Nutrition Program for Women, Infants and Children (WIC) - Passed through the Indiana State Department of Health	FNS	10.557	659,560
Homelessness Prevention and Rapid Re-Housing Program (HPRP) (Recovery Act Funded) - Passed through the Indiana Housing and Community and Development Authority - ARRA	DHUD	14.257	442,458
Total major programs			3,781,297
Non-Major Programs			
Supportive Housing Program	DHUD	14.235	332,964
Block Grant for Community Mental Health Services - Passed through the Indiana Division of Mental Health	DHHS	93.958	349,381
Projects for Assistance in Transition from Homelessness (PATH) - Passed through the Indiana Division of Mental Health	DHHS	93.150	75,000
Substance Abuse Treatment and HIV Services TCE - Substance Abuse and Mental Health Services Administration (SAMHSA)	DHHS	93.243	1,772,202
Total non-major programs			2,529,547
Total federal expenditures			$ 6,310,844

Note - The accompanying schedule of expenditures of federal awards for the year ended June 30, 2011 includes the federal grant activity of the Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CENTERSTONE OF INDIANA, INC.

SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS
YEAR ENDED JUNE 30, 2011

Grantor	Expenditures
State	
Indiana Division of Mental Health and Addiction	$ 4,728,607
Indiana Family & Social Services Administration	2,116,175
Other	2,400,618
Total state awards	9,245,400
Local	
Bartholomew County Funds	495,530
Brown County Funds	100,592
Decatur County Funds	153,916
Fayette County Funds	84,996
Jackson County Funds	263,682
Jennings County Funds	108,470
Jefferson County Funds	80,724
Lawrence County Funds	152,936
Monroe County Funds	519,334
Morgan County Funds	308,803
Owen County Funds	71,608
Rush County Funds	100,982
Randolph County Funds	110,004
Union County Funds	34,668
Wayne County Funds	322,465
Other	279,177
Total local awards	3,187,887
Total state and local awards	$ 12,433,287

Note - The accompanying schedule of state and local awards for the year ended June 30, 2011 includes the state and local awards activity of the Center and is presented on the accrual basis of accounting. The basic financial statements classifications may include other financial activity for reporting purposes. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Centerstone of America, Inc.
Bloomington, Indiana

We have audited the consolidated financial statements of Centerstone of Indiana, Inc., (the Center), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Guidelines for Examination of Entities Receiving Financial Assistance issued by the Indiana State Board of Accounts. Our report included an explanatory paragraph stating that the Center is part of an affiliated group of entities that has been consolidated into the reporting entity, Centerstone of America, and that these financial statements include only the financial position, changes in net assets and cash flows of the Center.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Centerstone of America, Inc.
Bloomington, Indiana

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Center in a separate letter dated December 6, 2011.

This report is intended solely for the information of the Board of Directors, management and the cognizant audit agencies, the Indiana Division of Mental Health and Addiction and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

December 6, 2011

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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Centerstone of America, Inc.
Bloomington, Indiana

<u>Compliance</u>

We have audited the compliance of Centerstone of Indiana, Inc., (the Center), with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Center's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Board of Directors
Centerstone of America, Inc.
Bloomington, Indiana

Internal Control Over Compliance

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the board of directors, management, the cognizant audit agencies, the Indiana Division of Mental Health and Addiction other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

December 6, 2011

CENTERSTONE OF INDIANA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

Section I – Summary of Audit Results:

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	____ yes	X none reported
Significant deficiency(s) identified that are not considered to be material weakness(es) noted?	____ yes	X none reported
Noncompliance material to financial statements noted?	____ yes	X no

Federal Awards

Internal controls over major programs:		
Material weakness(es) identified?	____ yes	X none reported
Significant deficiency(s) identified that are not considered to be material weakness(es) noted?	____ yes	X none reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	____ yes	X no

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
93.959	Substance Abuse Prevention and Treatment (SAPT) Block Grant - Passed through the Indiana Division of Mental Health
93.667	Social Services Block Grant- passed through the Indiana Division of Mental Health
10.557	Special Supplemental Nutrition Program for Women, Infants and Children (WIC) - Passed through the Indiana State Department of Health
14.257	Homelessness Prevention and Rapid Re-Housing Program (HPRP) (Recovery Act Funded) - Passed through the Indiana Housing and Community and Development Authority - ARRA

Dollar threshold used to distinguish between type A and B programs:	$300,000	
Auditee qualified as low-risk auditee?	____ yes	X no

Section II - Findings Related to Financial Statements Reported in Accordance With *Government Auditing Standards*:

No matters reported

Section III - Findings and Questioned Costs Relating to Federal Awards:

No matters reported

Section IV - Summary Schedule of Prior Audit Findings:

No matters reported