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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, 2012 to June 30, 2013. 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, 2013, 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, 2013 AND 2012

CENTERSTONE OF INDIANA, INC.

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JUNE 30, 2013 AND 2012

CPAS / ADVISORS

blue

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Centerstone of Indiana, Inc. and its subsidiaries (the Center), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General in the United States and Guidelines for Examination 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating information on pages 37 through 42 is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit *Organizations* is presented for purposes of additional analysis and is also not a required part of the consolidated financial statements.

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

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 audits 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Center's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
November 20, 2013

CENTERSTONE OF INDIANA, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS

	2013	2012
Current assets		
Cash and cash equivalents	$ 10,323,640	$ 14,480,176
Accounts receivable, net	2,237,878	1,791,036
Other receivables	3,254,903	4,258,269
Due from affiliated entities	3,177,237	966,394
Unconditional promises to give, net	533,001	611,044
Prepaid expenses and other current assets	98,207	176,014
Total current assets	19,624,866	22,282,933
Property and equipment, net	26,343,314	27,431,576
Other assets	157,161	163,749
Unconditional promises to give, net	1,292,709	1,553,363
Beneficial interest	1,262,322	-0-
Assets whose use is limited	7,111,789	272,330
Total assets	$ 55,792,161	$ 51,703,951

LIABILITIES AND NET ASSETS

	2013	2012
Current liabilities		
Current portion of long term debt	$ 893,179	$ 387,400
Accounts payable and accrued expenses	1,144,980	2,012,724
Estimated third party settlements	1,161,470	1,545,420
Due to other entities	1,536,427	-0-
Accrued payroll, benefits and taxes	4,104,568	4,123,910
Total current liabilities	8,840,624	8,069,454
Long term debt		
Revenue bonds, net of current portion	3,425,000	3,790,000
Other long term debt, net of current portion	8,553,736	9,573,391
Total long term debt	11,978,736	13,363,391
Other liabilities	450,000	492,738
Agency liabilities	513,477	3,452,222
Derivative liability	69,261	104,691
Total liabilities	21,852,098	25,482,496
Total net assets		
Unrestricted	25,176,428	23,157,714
Temporarily restricted	3,118,528	3,063,741
Permanently restricted	5,645,107	-0-
Total net assets	33,940,063	26,221,455
Total liabilities and net assets	$ 55,792,161	$ 51,703,951

See accompanying notes to consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Revenue, gains and other support		
Net client service revenue	$ 25,573,152	$ 24,522,679
Less provision for bad debts	1,515,660	1,433,168
Net client service revenue less provision for bad debts	24,057,492	23,089,511
Public support	24,585,353	26,226,682
Other	3,743,558	3,762,032
Total revenue and other support	52,386,403	53,078,225
Expenses		
Salary and fringe benefits	33,062,579	32,005,744
Telephone	1,300,237	1,264,871
Travel	1,885,684	1,962,858
Drugs and supplies	961,571	1,021,380
Contracted services	1,194,073	1,507,385
Purchased services	656,990	308,188
Utilities	755,687	686,946
Repairs and maintenance	803,462	1,301,027
Affiliated management fees	6,492,910	7,345,777
Rents and leases	1,675,756	1,474,997
Depreciation and amortization	1,230,732	1,094,371
Insurance	560,625	593,699
Interest	185,269	184,459
Miscellaneous	790,845	1,377,757
Total expenses	51,556,420	52,129,459
Operating gain	$ 829,983	$ 948,766

See accompanying notes to consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Nonoperating revenues (expenses)		
Foundation related expenses	$ (1,252,347)	$ (755,443)
Contributions and pledges	194,277	437,734
Other	(2,360)	23,198
Interest and dividends	151,090	6,242
Realized gain on investments	92,322	-0-
Unrealized gain on derivatives	35,430	8,234
Unrealized gain on investments	544,901	-0-
Total nonoperating revenues and expenses	(236,687)	(280,035)
Excess of revenue over expenses before discontinued operations	593,296	668,731
Discontinued operations		
Loss from discontinued operations	-0-	(37,177)
Excess of revenue over expenses	593,296	631,554
Other changes in unrestricted net assets		
Contributions to supported entities	(15,029)	(614,952)
Net assets released from restriction	1,432,617	614,952
Liquidating distributions	-0-	(136,367)
Equity transfer from Centerstone Endowment Trust	7,830	-0-
Change in unrestricted net assets	2,018,714	495,187
Temporarily restricted net assets		
Contributions and pledges	594,813	642,196
Net assets released from restrictions	(1,432,617)	(614,952)
Equity transfer from Centerstone Endowment Trust	806,513	-0-
Change in beneficial interest	86,078	-0-
Change in temporarily restricted net assets	54,787	27,244
Permanently restricted net assets		
Equity transfer from Centerstone Endowment Trust	5,645,107	-0-
Change in net assets	7,718,608	522,431
Net assets, beginning of year	26,221,455	25,699,024
Net assets, end of year	$ 33,940,063	$ 26,221,455

See accompanying notes to consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Operating activities		
Change in net assets	$ 7,718,608	$ 522,431
Adjustments to reconcile change in net assets to net cash flows from operating activities		
(Gain) loss on disposal of assets	(13,140)	3,198
Public support - debt forgiveness	(499,083)	-0-
Depreciation and amortization	1,230,732	1,094,371
Unrealized gain on derivative	(35,430)	(8,234)
Bad debt	1,515,660	1,433,168
Unrealized gain on investments	(544,901)	-0-
Realized gain on sale of investments	(92,322)	-0-
Change in beneficial Interest	(86,078)	-0-
Provisions for uncollectible and discount to net present value on promises to give	(393,018)	(178,632)
Equity transfers from Centerstone Endowment Trust	(6,459,450)	-0-
Restricted contributions and pledges	(594,813)	(642,196)
Changes in operating assets and liabilities		
Accounts receivable, net	(1,962,502)	(2,067,982)
Due to/from affiliates	(674,416)	(440,726)
Other receivables	1,003,366	(315,065)
Unconditional promises to give, net	731,715	1,617,429
Prepaid expenses and other current assets	77,807	13,100
Accounts payable and accrued expenses	(867,744)	208,021
Estimated third party settlements	(383,950)	(262,758)
Accrued payroll, benefits and taxes	(19,342)	411,206
Other liabilities	(42,738)	214,620
Net cash flows from operating activities	(391,039)	1,601,951
Investing activities		
Change in other assets	6,588	(266,155)
Proceeds from discontinued operations	-0-	409,110
Purchase of property and equipment	(129,330)	(6,739,862)
Proceeds from the sale or maturity of investments	244,216	-0-
Purchases of investments	(422,340)	(44,255)
Change in assets whose use is limited	(6,024,112)	-0-
Change in agency liabilities	(2,938,745)	(251,558)
Net cash flows from investing activities	(9,263,723)	(6,892,720)
Financing activities		
Liquidating distributions	-0-	(136,367)
Equity transfers from Centerstone Endowment Trust	6,459,450	-0-
Change in beneficial Interest	(1,176,244)	-0-
Restricted contributions and pledges	594,813	642,196
Proceeds from issuance of long term debt	-0-	5,678,871
Principal payments on long term debt	(379,793)	(467,348)
Net cash flows from financing activities	5,498,226	5,717,352
Net change in cash and cash equivalents	(4,156,536)	426,583
Cash and cash equivalents, beginning of year	14,480,176	14,053,593
Cash and cash equivalents, end of year	$ 10,323,640	$ 14,480,176
Supplemental cash flows information		
Cash paid for interest	$ 185,269	$ 184,459
Noncash financing activities		
Equity transfers from Centerstone Endowment Trust		
Assets whose use is limited	$ 5,283,206	$ -0-
Beneficial interest in Community Foundation of Middle Tennessee	$ 1,176,244	$ -0-
Indiana Housing and Community Development Authority debt forgiveness	$ 449,083	$ -0-

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Originally, South Central Community Mental Health Centers, Inc. d/b/a Center for Behavioral Health changed its name to Centerstone of Indiana, Inc. (the Center). Concurrently, Centerstone of America, Inc. became the sole member of the Center. Subsequently, Quinco Consulting Center, Inc. and Dunn Mental Health Center, Inc. and its affiliate, Independent Living Alternatives, Inc. d/b/a Cumberland Apartments (Cumberland), merged with the Center.

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., Independent Living Alternatives, Behavioral Health Organizations of Indiana, LLC. (BHOI), and Centerstone Supportive Housing, LLC (Supportive Housing).

The Center is the sole member of Centerstone Foundation, Inc. (the Foundation). The 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 oversight and agency duties from Centerstone of Tennessee, Inc during 2011. In addition, the Foundation, received an equity transfer from Centerstone Endowment Trust, an affiliate presented within Centerstone of Tennessee, Inc., in the form of permanently restricted, temporarily restricted, and unrestricted net assets during 2013.

Centerstone Supportive Housing, LLC (Supportive Housing) was incorporated 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) and participates in the 1602 Tax Credit Exchange Program mortgage administered through the Indiana Housing Community Development Authority.

Independent Living Alternatives was incorporated to construct, own and operate a 21-unit apartment community in Richmond, Indiana, known as Cumberland Apartments. They have entered into the standard FHA regulatory agreements governing the operation of the apartment project with the Federal Housing Administration Section of the Department of Housing and Urban Development (HUD).

Independent Living Alternatives and Supporting Housing are consolidated as the Center is the sole corporate member.

BHOI was organized to perate the Fresh Start Program, two group homes in southern Indiana for certain districts of the county welfare departments of the State of Indiana, Division of Family and Children.

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.

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. The following classes of net assets are maintained:

Unrestricted Net Assets

Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Center, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed restrictions that may or will be met either by action of the Center and/or the passage of time. In addition, unrestricted earnings on donor restricted endowment funds are considered to be time restricted and are classified as temporarily restricted until those amounts are appropriated for expenditure. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. The Center's temporarily restricted net assets consist of contributions and pledges received by Centerstone Foundation, Inc.

Permanently Restricted Net Assets

Net assets subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Center. Included in this classification are endowment funds, which are subject to the restrictions of gift instruments requiring that the principal be maintained in perpetuity, and invested for the purpose of producing present and future income.

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 Center 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 Center of the Center.

Not Alone, Inc. provides counseling services to returning members of the armed forces. Not Alone, Inc. is a Sister Center of the Center. Subsequent to year-end, Not Alone, Inc. changed its name to Centerstone Military Services, Inc.

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 Center of the Center. Centerstone Endowment Trust transferred its assets to Centerstone Foundation during 2013.

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

Centerstone Research Institute, Inc. is a research, benchmarking and information technology consulting center dedicated to improving health care delivery through the marriage of research and information technology. Centerstone Research Institute, Inc. is a Sister Center 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. The associated not-for-profit entities are related parties to the Center and are not consolidated within the accompanying financial statements.

Red Oak Industries, Inc. (Red Oak) is a not-for-profit organization that provides cleaning services. Certain members of management serve on the board of directors for Red Oak and as such it is a related party to the Center. It is not consolidated within the accompanying financial statements.

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. The fair value of the related assets whose use is limited as of June 30, 2013 and 2012 was approximately $315,000 and $272,000, respectively.

During fiscal year 2013, Centerstone Foundation received trust assets from Centerstone Endowment Trust through an equity transfer, to provide oversight functions after receiving approval from the Tennessee Attorney General. The fair value of the related assets whose use is limited as of June 30, 2013 was approximately $6,797,000.

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 consolidated statements of financial position. 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.

Performance Indicator and Operating Indicator

The consolidated statements of activities and changes in net assets include a performance indicator, excess of revenue over expenses. Changes in unrestricted net assets which would be excluded from the performance indicator include equity transfers from affiliated parties, net assets released from released from restriction, contributions to supported entities, and liquidating distributions. The consolidated statements of activities and changes in net assets also include an operating indicator, operating gain. Certain nonoperating items are excluded from the operating indicator including Centerstone Foundation, Inc. expenses, contributions and pledges, other income, investment income, realized gains on investments, and unrealized gains on derivatives and investments.

Advertising Costs

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 approximately $197,000 and $112,000 for June 30, 2013 and 2012, 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 $258,000 and related accumulated amortization of approximately $111,000 and $104,000 as of June 30, 2013 and 2012, respectively, related to variable rate demand revenue bonds. Amortization expense was approximately $6,000 for the years ended June 30, 2013 and 2012. The remaining amount of amortization will be recognized over the life of the bond, which is 9 years as of June 30, 2013.

Net Client Service Revenue and Accounts Receivable

The Center recognizes net patient service revenues on the accrual basis of accounting in the reporting period in which services are performed based on the current gross charge structure, less actual adjustments and estimated discounts for contractual allowances, principally for patients covered by Medicare, Medicaid, and managed care and other health plans. Gross patient service revenue is recorded in the accounting records using the established rates for the type of service provided to the patient. The Center recognizes an estimated contractual allowance to reduce gross patient charges to the estimated net realizable amount for services rendered based upon previously agreed-to rates with a payor. The Center utilizes the patient accounting system to calculate contractual allowances on a payor-by-payor basis based on the rates in effect for each primary third-party payor. The management of the Center continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms that result from contract renegotiations and renewals.

Payors include federal and state agencies, including Medicare and Medicaid, managed care health plans, commercial insurance companies, employers, and patients. These third-party payors provide payments to the Center at amounts different from its established rates based on negotiated reimbursement agreements. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and fee schedule payments. Retroactive adjustments under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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.

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.

Allowance for Doubtful Accounts

Patient accounts receivable are reduced by an allowance for doubtful accounts based on the Center's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to its service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary. For receivables associated with self-pay payments, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

For the years ended June 30, 2013 and 2012, 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 allowance methodology was generally consistent between years. The Center's allowance for doubtful accounts as of June 30, 2013 and 2012 were approximately $1,687,000 and $1,703,000, respectively.

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. Amounts for foregone charges related to charity care during June 30, 2013 and 2012 were approximately $2,400,000 and $2,600,000, respectively.

Of the Center's total operating expenses reported (approximately $51,600,000 and $52,100,000 for the years ended June 30, 2013 and 2012, respectively), an estimated $1,700,000 and $1,800,000 arose from providing services to charity patients during the years ended June 30, 2013 and 2012, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Center's total expenses divided by gross patient service revenue.

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.

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 an approximate liability of $1,161,000 and $1,545,000 as of June 30, 2013 and 2012, respectively.

Agency Liabilities

Centerstone Foundation, Inc. serves as an agent, primarily on behalf of Centerstone of Tennessee, Inc. and Centerstone Research Institute, Inc. for certain donor restricted funds which were transferred during 2011. The Foundation transfers assets to these related parties in accordance with the stipulated donor restrictions.

Other Liabilities

Other liabilities relates to deferred revenue which is being recognized as earned.

Federal and State Income Taxes

The Center and its subsidiaries, except for Supportive Housing, are organized as a not-for-profit center under Section 501(c)(3) of the United States Internal Revenue Code. The exemption is on all income except unrelated business income as noted under Section 511 of the Internal Revenue Code. Internal Revenue Code Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose.

Supportive Housing is organized as a limited liability company, whereby net taxable income is taxed directly to the members and not Supportive Housing. Accordingly, no current or deferred provision for income taxes was made for 2013 and 2012. As such, these organizations are generally exempt from income taxes. However, the Center and its subsidiaries are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Center and recognize a tax liability if the Center has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities.

Management has analyzed the tax positions taken by the Center and has concluded that as of June 30, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Center and its subsidiaries filed the federal and state income tax returns for periods through June 30, 2012. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Electronic Health Records (EHR) Incentive Payments

The Center, based on the activities of its Eligible Professionals (EP), receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Center's EPs must meet "meaningful use" criteria that become more stringent over time. EPs who meet the eligibility requirements for both the Medicare and Medicaid EHR Incentive Programs may participate in only one program, and must designate the program in which they would like to participate.

After a payment is made, EPs will be allowed to change the program selection once before 2015. A qualifying EP can receive EHR incentive payments for up to five years under Medicare and six years under Medicaid with payments beginning as early as 2011. In general, the maximum amount of total incentive payments that an EP can receive under the Medicare program is $44,000 and $63,750 under the Medicaid program. The Medicare incentive payments equal 75 percent of Medicare allowable charges for covered professional services furnished by the EP in a payment year. The Medicaid incentive payments are based on Medicaid or underserved patient volume. Both programs are subject to the aforementioned maximum payment amounts. The EPs assign their incentive payments to the Center.

The Center periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30).

The related EHR incentive payments are paid out over a transition schedule and are based upon data that is captured in the Center's cost reports. For 2015 and later, Medicare EPs that do not successfully demonstrate meaningful use will have a payment adjustment in their Medicare reimbursement.

The Center recognizes EHR incentive payments as income when there is reasonable assurance that the Center will comply with the conditions of the meaningful use objectives and any other specific requirements.

In addition, the financial statement effects of the revenue must be both recognizable and measurable. During 2013 and 2012, the Center recognized approximately $0- and $404,000, respectively, in EHR incentive payments using the ratable recognition method. Under the ratable recognition method, the Center recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included as other revenue in the consolidated statement of activities and changes in net assets. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Center as prescribed by the programs, subject to future audits and may be subject to repayment upon a determination of noncompliance.

Reclassifications

Certain information from 2012 has been reclassified to conform to the current year presentation.

New Accounting Pronouncements

Effective January 1, 2012, the Center adopted ASU 2011-07, Healthcare Entities (Topic 954), "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Healthcare Entities," which requires certain healthcare entities to present the provision for bad debts relating to patient service revenue as a deduction from patient service revenue in the consolidated statements of activities and changes in net assets rather than as an operating expense. All periods presented have been reclassified to conform to this presentation. The Center's adoption of this standard had no net impact on its financial position, results of operations, or cash flows. ASU 2011-07 also requires healthcare entities to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for uncollectible accounts. See the "Net Client Service Revenue and Accounts Receivable", "Allowance for Doubtful Accounts" sections of this note.

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 November 20, 2013.

2. AFFILIATED ENTITIES AND RELATED PARTY TRANSACTIONS

The Center entered into certain working capital, administrative and general transactions with its Parent and Sister Centers as are disclosed in Note 1. The Center has recorded a related receivable in the approximate amount of $3,177,000 and $966,000 as of June 30, 2013 and 2012. For the years ended June 30, 2013 and 2012, the Center incurred approximate affiliated management fees in the amount of $6,493,000 and $7,346,000, respectively, for services provided by its Parent. For the years ended June 30, 2013 and 2012, the Center incurred malpractice and liability insurance coverage in the approximate amount of $548,000 and $589,000, respectively, which is paid by the Parent and then reimbursed by the Center.

Centerstone Foundation is a supporting organization to the affiliated entities. The associated balance in the related agency liability as of June 30, 2013 and 2012 is approximately $513,000 and $3,452,000, respectively. The Foundation has a related party payable in the amount of $1,536,000. In addition, the Foundation received an equity transfer from Centerstone Endowment Trust during 2013 in the approximate amount of $6,460,000. During 2013 and 2012, the Foundation contributed approximately $15,000 and $642,000, respectively, to supported entities.

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 center. Management revenue of approximately $65,000 was recorded during June 30, 2013 and 2012.

The Center contracts with Red Oak Industries to provide cleaning services and has recorded associated fees in the approximate amount of $96,000 and $80,000 during June 30, 2013 and 2012, respectively. The Center has recorded a related, immaterial receivable as of June 30, 2013 and 2012, respectively, which is included in other receivables in the accompanying consolidated financial statements.

3. BENEFICIAL INTEREST

During the fiscal year ending June 30, 2005, Centerstone of Tennessee, Inc. (Tennessee) transferred $1,000,000 to the Community Foundation of Middle Tennessee (Community Foundation) to establish an investment in an Agency Endowment Fund that specifies Tennessee as the beneficiary. On July 1, 2012, Tennessee transferred the Agency Endowment Fund to Centerstone Foundation, Inc. for additional oversight function. Tennessee remains the trustee of the beneficial interest in the Community Foundation of Middle Tennessee subsequent to the transfer. The intended use of the Agency Endowment Fund is to support Tennessee's mission of serving the needy. Variance power has been granted to the Community Foundation to make distributions from the fund in accordance with the Community Foundation's Articles of Incorporation and in accordance with Tennessee's expressed intent. Tennessee has the right and responsibility to recommend distributions of principal and income, but those recommendations are advisory in nature. The beneficial interest is reported at fair value for the year ended June 30, 2013.

The following schedule summarizes the investment expenses and earnings and its classification in the consolidated statement of activities and changes in net assets.

	2013
Beneficial interest in Community Foundation of Middle Tennessee, beginning of year	$ -0-
Transfer from Centerstone Endowment Trust	1,176,244
Investment expenses	(5,201)
Investment gain	153,139
Grants paid out	(61,860)
Beneficial interest in Community Foundation of Middle Tennessee, end of year	$ 1,262,322

Fair value of the beneficial interest is estimated as the net asset value of the underlying shares in the Community Foundation's investment pool. Fair value is determined in this manner because there are no observable market transactions for assets similar to the beneficial interest in the Agency Endowment Fund. Because there is no observable market transactions and because the Center can only redeem the resources at net asset value for its own use subject to the approval of the governing board of the Community Foundation, this fair value measure is a level 3 measure as defined in FASB ASC 820, Fair Value Measurement.

4. ASSETS WHOSE USE IS LIMITED

The composition of assets limited as to use at June 30, 2013 and 2012 is set forth in the following table. Investments are stated at fair value except certificates of deposit which are reported at contract value.

	2013	2012
Cash and cash equivalents	$ 250,750	$ 139,980
Certificates of deposit	60,000	60,000
Equities	2,050,981	-0-
Exchange traded funds	643,949	-0-
Mutual funds	4,047,361	13,500
Corporate bonds	58,748	58,850
	$ 7,111,789	$ 272,330

Investment income included on the consolidated statements of activities and changes in net assets consists of the following for 2013 and 2012:

	2013	2012
Interest and dividends	$ 151,090	$ 6,242
Realized gain on investments	92,322	-0-
Unrealized gain on investments	544,901	-0-
	$ 788,313	$ 6,242

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation 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). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.

- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013 and 2012.

- *Equity securities:* Valued at the closing price reported on the active market on which the individual securities are traded.

- *Exchange traded funds*: Valued at the daily closing price as reported by the fund on an active market on which the exchange-traded funds are traded. Exchange-traded funds are generally valued at their net asset value (NAV), although shares may trade at a premium or discount to the NAV depending on the liquidity of the underlying securities, market volatility, and other factors.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Center are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Center are deemed to be actively traded.

- *Corporate bonds*: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

- *Derivative (Interest rate swap agreement)*: Valued using pricing models that are derived principally from observable market data based on discounted cash flows and interest rate yield curves at quoted intervals for the full term of the swap. See the note disclosure "Derivatives Financial Instruments – Interest Rate Swaps" for additional information related to derivatives.

- *Beneficial interest in outside trust*: Valued at fair value as reported by the trustee, which represents the Foundation's *pro rata* interest in the net assets of the trust, substantially all of which are valued on a mark-to-market basis.

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, 2013 and 2012 are as follows:

	June 30, 2013			
	Total	Level 1	Level 2	Level 3
Assets whose use is limited				
Equity securities				
Energy	$ 143,536	$ 143,536	$ -0-	$ -0-
Industry	421,554	421,554	-0-	-0-
Consumer discretionary	268,610	268,610	-0-	-0-
Consumer staples	274,400	274,400	-0-	-0-
Healthcare	192,830	192,830	-0-	-0-
Financials	86,536	86,536	-0-	-0-
Information technology	255,675	255,675	-0-	-0-
Telecommunication	42,160	42,160	-0-	-0-
Foreign common	365,680	365,680	-0-	-0-
Exchange traded funds				
Growth	145,940	145,940	-0-	-0-
Index	347,823	347,823	-0-	-0-
Value	150,186	150,186	-0-	-0-
Mutual funds				
Blend	994,154	994,154	-0-	-0-
Growth	1,055,963	1,055,963	-0-	-0-
Value	344,683	344,683	-0-	-0-
Real estate investment trusts	72,704	72,704	-0-	-0-
Fixed income	1,579,857	1,579,857	-0-	-0-
Corporate bonds	58,748	-0-	58,748	-0-
	6,801,039	$ 6,742,291	$ 58,748	$ -0-
Cash and cash equivalents	250,750			
Certificates of deposit *	60,000			
	$ 7,111,789			
Beneficial interest	$ 1,262,322	$ -0-	$ -0-	$ 1,262,322
	Total	Level 1	Level 2	Level 3
Liabilities				
Derivative liability	$ 69,261	$ -0-	$ 69,261	$ -0-

* Certificates of deposit are reported at contract value

	June 30, 2012			
	Total	Level 1	Level 2	Level 3
Assets whose use is limited				
Corporate bonds	$ 58,850	$ -0-	$ 58,850	$ -0-
Mutual funds	13,500	13,500	-0-	-0-
	72,350	$ 13,500	$ 58,850	$ -0-
Cash and cash equivalents	139,980			
Certificates of deposit *	60,000			
	$ 272,330			

	Total	Level 1	Level 2	Level 3
Liabilities				
Derivative liability	$ 104,691	$ -0-	$ 104,691	$ -0-

* Certificates of deposit are reported at contract value

The Center's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances / end of the reporting period. There were no transfers during 2013.

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, other receivables, 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, other receivables, accounts payable, accrued expenses and estimated third party settlements approximate fair value based on short-term maturity.

- Long-term debt: The fair value of the Center's long-term debt approximates carrying value based upon the underlying nature of the related debt.

See note 3, Beneficial Interest, for progression of level 3.

6. PROPERTY PLANT AND EQUIPMENT

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

	2013	2012
Land	$ 2,142,748	$ 2,091,548
Buildings and improvements	32,573,475	23,908,655
Furnishings and equipment	3,265,673	2,372,950
Construction in progress	9,420	9,542,244
	37,991,316	37,915,397
Accumulated depreciation and amortization	(11,648,002)	(10,483,821)
	$ 26,343,314	$ 27,431,576

7. 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.

	2013	2012
Pledges receivable	$ 2,323,507	$2,873,024
Net present value discount	(294,940)	(368,511)
Allowance for uncollectible pledges	(202,857)	(340,106)
	$ 1,825,710	$2,164,407
Amounts due in:		
Less than one year	$ 533,001	$ 611,044
One to five years	1,292,709	1,553,363
	$ 1,825,710	$2,164,407

8. LONG TERM DEBT

Long term debt consists of the following:

	2013	2012
Indiana Department Finance Authority Series (IDFA) 2002 variable rate demand economic development revenue bonds, variable interest rate, .08% at June 30, 2013, $200,000 redeemed on December 1st each year, final payment due December 2022, collateralized accounts receivable, and property and equipment with a net book value of approximately $2,159,000	$ 2,000,000	$ 2,200,000
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 with a net book value of approximately $260,000.	12,500	20,000
Mortgage loan with U.S. Department of Housing and Urban Development. Monthly installments of principal and interest are $5,000 with a maturity date of July 1, 2031. Interest is being charged at 9.25%. Collateralized by certain real estate with a net book value of approximately $327,000.	518,111	528,736
Note payable, 7% fixed interest rate, payable in monthly installments of $3,076 due September 2032, collateralized by real estate with a net book value of approximately $1,340,000.	414,138	415,806
Mortgage payable to Indiana Housing & Community Development Authority, 0% interest, due 2026, forgiven over a 15 year period, collateralized by real estate with a net book value of approximately $8,762,000	8,137,166	8,636,249
Series 2001 Revenue Bonds, variable interest rate, .32% at June 30, 2013, principal maturing in varying annual amounts through December 2021, collateralized by a mortgage on certain real estate with a net book value of approximately $2,578,000.	1,790,000	1,950,000
	12,871,915	13,750,791
Current portion	(893,179)	(387,400)
Total long term debt	$ 11,978,736	$ 13,363,391

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. 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 variable interest rate is subject to the interest rate swap agreement as discussed in Note 12.

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. 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.

Management believes the Center is in compliance with all of the required financial covenants.

The mortgage loan with the Indiana Housing & Community Development Authority is interest free and forgivable over a 15 year period, commencing when the associated property is placed into operation, 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:

2014	$ 893,179
2015	902,522
2016	904,527
2017	916,707
2018	923,930
Thereafter	8,331,050
	$ 12,871,915

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30, 2013 and 2012, respectively:

	2013	2012
Dede Wallace Campus	$ 2,583,004	$2,409,885
Capital Campaign for Research	535,524	653,856
	$ 3,118,528	$3,063,741

10. PERMANENTLY RESTRICTED NET ASSETS

The Center's permanently restricted net assets were comprised of the following as of June 30, 2013:

	2013
Permanent Endowments	$ 4,645,107
Beneficial Interest in Community Foundation of Middle Tennessee	1,000,000
	$ 5,645,107

The earnings on the permanently restricted endowment assets can be used for general purposes.

11. ENDOWMENT FUNDS

The Center's endowment consists of a fund established for a specific purpose. The endowment includes only donor-restricted funds to function as an endowment. Net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

The objective is to meet or exceed the market index, or blended market index, selected and agreed upon by the Center or provide an acceptable return with lower volatility or credit risk. In order to meet its needs, the investment strategy of the Center is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.

Specifically, the primary objective in the investment management for endowment fund assets shall be long-term growth of capital and to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index.

The board of directors has interpreted the relevant law as requiring prudent preservation of the fund and evaluates the amounts of unrestricted income and the unrealized gains and losses periodically. The Center has a policy of appropriating for distribution an amount of earned income based upon a stipulated formula.

The endowment net assets composition by type of fund as of June 30, 2013 and 2012:

Permanently restricted net assets	
Donor-restricted endowment funds	$4,645,107
Beneficial Interest	1,000,000
Total endowment funds	$5,645,107

The Center incurred the following changes in endowment net assets for the year ended June 30, 2013:

	2013
Endowment and Beneficial Interest net assets, beginning of year	$ -0-
Equity transfer from Centerstone Endowment Trust	5,645,107
Endowment and Beneficial Interest net assets, end of year	$5,645,107

The Center has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by law.

In accordance with the law, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Center, and (7) the Center's investment policies.

12. DERIVATIVE FINANCIAL INSTRUMENT- INTEREST RATE SWAPS

Objectives and Strategies for Using Derivatives

The Center makes limited use of derivative financial instruments for the purpose of managing interest rate risk. In particular, forward interest rate swaps (which are designated as cash flow hedges) are used to manage the risk associated with interest rates on variable-rate borrowings and to lower its overall borrowing costs.

At June 30, 2013, the Center had an outstanding interest rate swap agreement with a commercial bank, having a total notional amount of $1,100,000 and $1,200,000 as of June 30, 2013 and 2012. This agreement effectively changed the Center's interest rate exposure on a portion of its IDFA series 2002 Bonds to a fixed 3.7%. The financial institution pays the variable rate, 0.08% and 0.18% as of June 30, 2013 and 2012 (see Note 8). The term of the swap is 10 years with a beginning notional amount of $2,000,000 in 2005, which decreases by $100,000 in December each year. The interest rate swap agreements mature at the time the related notes mature. The Center is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreements. However, the Center does not anticipate nonperformance by the counterparties.

These derivatives are not designated as hedging instruments, and are marked-to-market on the consolidated statements of financial position at fair value at the end of each period. The related gains are included in excess of revenues over expenses, 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.

The liability derivatives are reported as derivative liabilities, as of June 30, 2013 and 2012, the fair values of derivatives recorded in the consolidated statements of financial position are as follows (also see Note 5):

	2013	2012
Derivative liability	$ 69,261	$ 104,691

During 2013 and 2012, the amount of gain or loss recognized in the consolidated statements of activities and changes in net assets and reported as a component of nonoperating gain is as follows:

	2013	2012
Unrealized gain on derivative	$ 35,430	$ 8,234

13. FUNCTIONAL EXPENSES

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

	2013	2012
Behavioral health care services	$ 44,878,241	$ 44,599,223
General and administrative	6,678,179	7,530,236
	$ 51,556,420	$ 52,129,459

The Center incurred fundraising expenses which are incorporated in nonoperating revenues and expenses in the accompanying consolidated financial statements of approximately $1,252,000 and $755,000 for the years ended June 30, 2013 and 2012, respectively.

14. 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 contributed 3% of each eligible employee's gross wage during 2013 and 2012. Expense under the plan was approximately $455,000 and $426,000 for 2013 and 2012, respectively.

15. DISCONTINUED OPERATIONS

During 2012, BHOI discontinued operations and the Center received $272,733 in cash and property as part of the liquidation resulting in a loss of $37,177.

16. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Center has several non-cancelable operating leases, for certain operating facilities and equipment through 2016. The Center also has several operating leases that are on a month-to-month basis.

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

2014	217,737
2015	148,705
2016	42,336
Total minimum lease payments	$ 408,778

Total rent expense was approximately $1,676,000 and $1,475,000 for the years ended June 30, 2013 and 2012, 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 in-kind revenue within other revenue and expense within rent and leases in the accompanying financial statements in the approximate amount of $980,000 for years ended June 30, 2013 and 2012.

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 approximate related expense for the years ended June 30, 2013 and 2012 aggregated $4,178,000 and $3,988,000, respectively. The Center has purchased insurance, which limits its exposure on a per individual basis of $135,000 and no aggregate basis.

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.

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 centers to a loan payable issued to the Parent center in the original amount of approximately $6,265,000 maturing on August 15, 2017, approximate monthly payments of $26,102, with interest rate of London Interbank Offered Rate (LIBOR) plus 2.5%. The balance outstanding was approximately $6,000,000 as of June 30, 2013. This loan is collateralized with buildings and real estate with a net book value of approximately $7,459,000 as of June 30, 2013.

The Center is also a guarantor with certain other Sister centers to a revolving promissory note issued to the Parent corporation in the amount of $3,500,000 with a maturity date of August 2013. This line of credit was renewed through December 2014 in the amount of $5,000,000. The Corporation had no borrowings outstanding on the line of credit as of June 30, 2013 and 2012, respectively. The line of credit is secured by buildings and real estate and contains certain restrictive covenants.

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 certain identified properties as collateral in respect of the guarantees.

17. 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, subsidized and contractual adjustments incurred during 2013 and 2012:

	2013	2012
Gross client service revenue	$ 46,750,628	$ 46,937,353
Less deductions		
Charity care	(2,406,681)	(2,559,658)
Contractuals	(18,770,795)	(19,855,016)
Net client service revenue	25,573,152	24,522,679
Less provision for bad debt	(1,515,660)	(1,433,168)
Net client service revenue less provision for bad debt	$ 24,057,492	$ 23,089,511

In accordance with its grant requirements and state regulations, the Center provides services to patients and charges them based on their ability to pay according to a co-pay schedule. The Center also adjusts charges based on contractual agreements with third-party payors. The Center maintains records to identify and monitor the level of charges foregone for services furnished under charity care policy and contractual adjustments.

18. PUBLIC SUPPORT

The composition of public support during June 30, 2013 and 2012 is set forth in the following table.

	2013	2012
Public Support		
U.S. Department of Housing and Urban Developmen	$ 322,917	$ 332,385
Medicaid administrative outreach	2,422,650	2,381,886
Division of Mental Health	14,141,042	14,476,832
County funds	3,071,715	2,986,040
Vocational Rehab	958,120	949,044
State Women Infant Children	554,051	636,147
Other public support	3,114,858	4,464,348
	$ 24,585,353	$ 26,226,682

19. CONCENTRATIONS OF CREDIT RISK

The Center's main offices are located in Bloomington, Richmond 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 (net of certain contractual allowances) and gross revenues from clients and third-party payors were as follows:

	Receivables		Revenue	
	2013	2012	2013	2012
Medicare	2%	3%	7%	7%
Medicaid	57%	55%	66%	65%
Self pay	14%	14%	11%	12%
Other third-party payors	27%	28%	16%	16%
	100%	100%	100%	100%

SUPPLEMENTARY INFORMATION

CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS	Centerstone of Indiana, Inc	Centerstone Foundation, Inc.	Independent Living Alternatives	Supportive Housing	Eliminations	Total
Current assets						
Cash and cash equivalents	$ 7,998,624	$ 1,806,286	$ 141,277	$ 377,453	$ -0-	$ 10,323,640
Accounts receivable, net	2,237,542	-0-	336	-0-	-0-	2,237,878
Other receivables	3,249,903	-0-	-0-	5,000	-0-	3,254,903
Due from affiliated entities	3,227,237	-0-	-0-	-0-	(50,000)	3,177,237
Unconditional promises to give, net	-0-	533,001	-0-	-0-	-0-	533,001
Prepaid expenses and other current assets	84,789	-0-	-0-	13,418	-0-	98,207
Total current assets	16,798,095	2,339,287	141,613	395,871	(50,000)	19,624,866
Property and equipment, net	17,452,231	7,970	304,977	8,578,136	-0-	26,343,314
Other assets	157,161	-0-	-0-	-0-	-0-	157,161
Unconditional promises to give, net	-0-	1,292,709	-0-	-0-	-0-	1,292,709
Beneficial interest	-0-	1,262,322	-0-	-0-	-0-	1,262,322
Assets whose use is limited	315,119	6,796,670	-0-	-0-	-0-	7,111,789
Total assets	$ 34,722,606	$ 11,698,958	$ 446,590	$ 8,974,007	$ (50,000)	$ 55,792,161
LIABILITIES AND NET ASSETS						
Current liabilities						
Current portion of long term debt	$ 382,445	$ -0-	$ 11,651	$ 499,083	$ -0-	$ 893,179
Accounts payable and accrued expenses	1,108,385	2,000	23,977	60,618	(50,000)	1,144,980
Due to other entities	-0-	1,536,427	-0-	-0-	-0-	1,536,427
Estimated third party settlements	1,161,470	-0-	-0-	-0-	-0-	1,161,470
Accrued payroll, benefits and taxes	4,089,554	15,014	-0-	-0-	-0-	4,104,568
Total current liabilities	6,741,854	1,553,441	35,628	559,701	(50,000)	8,840,624
Long term debt						
Revenue bonds, net of current portion	3,425,000	-0-	-0-	-0-	-0-	3,425,000
Other long term debt, net of current portion	409,193	-0-	506,460	7,638,083	-0-	8,553,736
Total long term debt	3,834,193	-0-	506,460	7,638,083	-0-	11,978,736
Other liabilities	-0-	-0-	-0-	450,000	-0-	450,000
Agency liabilities	-0-	513,477	-0-	-0-	-0-	513,477
Derivative liability	69,261	-0-	-0-	-0-	-0-	69,261
Total liabilities	10,645,308	2,066,918	542,088	8,647,784	(50,000)	21,852,098
Total net assets						
Unrestricted	24,077,298	868,405	(95,498)	326,223	-0-	25,176,428
Temporarily restricted	-0-	3,118,528	-0-	-0-	-0-	3,118,528
Permanently restricted	-0-	5,645,107	-0-	-0-	-0-	5,645,107
Total net assets	24,077,298	9,632,040	(95,498)	326,223	-0-	33,940,063
Total liabilities and net assets	$ 34,722,606	$ 11,698,958	$ 446,590	$ 8,974,007	$ (50,000)	$ 55,792,161

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CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2013

	Centerstone of Indiana, Inc	Centerstone Foundation, Inc.	Independent Living Alternatives	Supportive Housing	Eliminations	Total
Revenue, gains and other support						
Net client service revenue	$ 25,573,152	$ -0-	$ -0-	$ -0-	$ -0-	$ 25,573,152
Less provision for bad debts	1,515,660	-0-	-0-	-0-	-0-	1,515,660
Net client service revenue less provision for bad debts	24,057,492	-0-	-0-	-0-	-0-	24,057,492
Public support	24,075,540	-0-	-0-	509,813	-0-	24,585,353
Other revenue	3,416,771	-0-	146,827	212,655	(32,695)	3,743,558
Total revenue, gains and other support	51,549,803	-0-	146,827	722,468	(32,695)	52,386,403
Expenses						
Salary and fringe benefits	33,062,579	-0-	-0-	-0-	-0-	33,062,579
Telephone	1,300,237	-0-	-0-	-0-	-0-	1,300,237
Travel	1,885,684	-0-	-0-	-0-	-0-	1,885,684
Drugs and supplies	961,571	-0-	-0-	-0-	-0-	961,571
Contracted services	1,194,073	-0-	-0-	-0-	-0-	1,194,073
Purchased services	608,559	-0-	32,695	48,431	(32,695)	656,990
Utilities	654,365	-0-	16,638	84,684	-0-	755,687
Repairs and maintenance	754,918	-0-	13,547	34,997	-0-	803,462
Affiliated management fees	6,482,250	-0-	-0-	10,660	-0-	6,492,910
Rents and leases	1,675,756	-0-	-0-	-0-	-0-	1,675,756
Depreciation and amortization	981,837	-0-	22,160	226,735	-0-	1,230,732
Insurance	547,754	-0-	4,175	8,696	-0-	560,625
Interest	136,886	-0-	48,383	-0-	-0-	185,269
Miscellaneous	790,845	-0-	-0-	-0-	-0-	790,845
Total expenses	51,037,314	0	137,598	414,203	(32,695)	51,556,420
Operating gain	$ 512,489	$ -0-	$ 9,229	$ 308,265	$ -0-	$ 829,983

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CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2013

	Centerstone of Indiana, Inc	Centerstone Foundation, Inc.	Independent Living Alternatives	Supportive Housing	Eliminations	Total
Nonoperating revenues and expenses						
Foundation related expenses	$ -0-	$ (1,252,347)	$ -0-	$ -0-	$ -0-	$ (1,252,347)
Contributions and pledges	-0-	194,277	-0-	-0-	-0-	194,277
Other	-0-	-0-	-0-	(2,360)	-0-	(2,360)
Interest and dividends	5,742	145,002	-0-	346	-0-	151,090
Realized gains on investments	-0-	92,322	-0-	-0-	-0-	92,322
Unrealized gain on derivatives	35,430	-0-	-0-	-0-	-0-	35,430
Unrealized gain on investment	-0-	544,901	-0-	-0-	-0-	544,901
	41,172	(275,845)	-0-	(2,014)	-0-	(236,687)
Excess of revenue over expenses	553,661	(275,845)	9,229	306,251	-0-	593,296
Other changes in unrestricted net assets						
Contributions to supported entities	-0-	(15,029)	-0-	-0-	-0-	(15,029)
Net assets released from restriction	-0-	1,432,617	-0-	-0-	-0-	1,432,617
Equity transfer from Centerstone Endowment Trust	-0-	7,830	-0-	-0-	-0-	7,830
Change in unrestricted net assets	553,661	1,149,573	9,229	306,251	-0-	2,018,714
Temporarily restricted						
Contributions and pledges	-0-	594,813	-0-	-0-	-0-	594,813
Net assets released from restrictions	-0-	(1,432,617)	-0-	-0-	-0-	(1,432,617)
Equity transfer from Centerstone Endowment Trust	-0-	806,513	-0-	-0-	-0-	806,513
Change in value of beneficial interest	-0-	86,078	-0-	-0-	-0-	86,078
Change in temporarily restricted net assets	-0-	54,787	-0-	-0-	-0-	54,787
Permanently restricted						
Equity transfer from Centerstone Endowment Trust	-0-	5,645,107	-0-	-0-	-0-	5,645,107
Change in net assets	553,661	6,849,467	9,229	306,251	-0-	7,718,608
Net assets, beginning of year	23,523,637	2,782,573	(104,727)	19,972	-0-	26,221,455
Net assets, end of year	$ 24,077,298	$ 9,632,040	$ (95,498)	$ 326,223	$ -0-	$ 33,940,063

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CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS	Centerstone of Indiana, Inc	Centerstone Foundation, Inc.	Independent Living Alternatives	Supportive Housing	Eliminations	Total
Current assets						
Cash and cash equivalents	$ 10,279,309	$ 3,423,995	$ 118,178	$ 658,694	$ -0-	$ 14,480,176
Accounts receivable, net	1,791,036	-0-	-0-	-0-	-0-	1,791,036
Other receivables	3,857,963	-0-	306	400,000	-0-	4,258,269
Due from affiliated entities	229,254	737,140	-0-	-0-	-0-	966,394
Unconditional promises to give, net	-0-	611,044	-0-	-0-	-0-	611,044
Prepaid expenses and other current assets	176,014	-0-	-0-	-0-	-0-	176,014
Total current assets	16,333,576	4,772,179	118,484	1,058,694	-0-	22,282,933
Property and equipment, net	18,338,781	3,493	327,137	8,762,165	-0-	27,431,576
Other assets	163,749	-0-	-0-	-0-	-0-	163,749
Unconditional promises to give, net	-0-	1,553,363	-0-	-0-	-0-	1,553,363
Assets whose use is limited	272,330	-0-	-0-	-0-	-0-	272,330
Total assets	$ 35,108,436	$ 6,329,035	$ 445,621	$ 9,820,859	$ -0-	$ 51,703,951
LIABILITIES AND NET ASSETS						
Current liabilities						
Current portion of long term debt	$ 376,774	$ -0-	$ 10,626	$ -0-	$ -0-	$ 387,400
Accounts payable and accrued expenses	1,318,999	213	21,612	671,900	-0-	2,012,724
Estimated third party settlements	1,545,420	-0-	-0-	-0-	-0-	1,545,420
Accrued payroll, benefits and taxes	4,029,883	94,027	-0-	-0-	-0-	4,123,910
Total current liabilities	7,271,076	94,240	32,238	671,900	-0-	8,069,454
Long term debt						
Revenue bonds, net of current portion	3,790,000	-0-	-0-	-0-	-0-	3,790,000
Other long term debt, net of current portion	419,032	-0-	518,110	8,636,249	-0-	9,573,391
Total long term debt	4,209,032	-0-	518,110	8,636,249	-0-	13,363,391
Other liabilities	-0-	-0-	-0-	492,738	-0-	492,738
Agency liabilities	-0-	3,452,222	-0-	-0-	-0-	3,452,222
Derivative liability	104,691	-0-	-0-	-0-	-0-	104,691
Total liabilities	11,584,799	3,546,462	550,348	9,800,887	-0-	25,482,496
Total net assets						
Unrestricted	23,523,637	(281,168)	(104,727)	19,972	-0-	23,157,714
Temporarily restricted	-0-	3,063,741	-0-	-0-	-0-	3,063,741
Total net assets	23,523,637	2,782,573	(104,727)	19,972	-0-	26,221,455
Total liabilities and net assets	$ 35,108,436	$ 6,329,035	$ 445,621	$ 9,820,859	$ -0-	$ 51,703,951

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CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012

	Centerstone of Indiana, Inc	Centerstone Foundation, Inc.	BHOI	Independent Living Alternatives	Supportive Housing	Eliminations	Total
Revenue, gains and other support							
Net client service revenue	$ 24,522,679	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ 24,522,679
Less provision for bad debts	1,433,168	-0-	-0-	-0-	-0-	-0-	1,433,168
Net client service revenue less provision for bad debts	23,089,511	-0-	-0-	-0-	-0-	-0-	23,089,511
Public support	26,226,682	-0-	-0-	-0-	-0-	-0-	26,226,682
Other revenue	3,642,616	-0-	-0-	207,655	-0-	(88,239)	3,762,032
Total revenue, gains and other support	52,958,809	-0-	-0-	207,655	-0-	(88,239)	53,078,225
Expenses							
Salary and fringe benefits	32,053,661	-0-	-0-	-0-	-0-	(47,917)	32,005,744
Telephone	1,264,871	-0-	-0-	-0-	-0-	-0-	1,264,871
Travel	1,962,858	-0-	-0-	-0-	-0-	-0-	1,962,858
Drugs and supplies	1,021,380	-0-	-0-	-0-	-0-	-0-	1,021,380
Contracted services	1,507,385	-0-	-0-	-0-	-0-	-0-	1,507,385
Purchased services	308,188	-0-	-0-	40,322	-0-	(40,322)	308,188
Utilities	672,351	-0-	-0-	14,595	-0-	-0-	686,946
Repairs and maintenance	1,270,547	-0-	-0-	30,480	-0-	-0-	1,301,027
Affiliated management fees	7,345,777	-0-	-0-	-0-	-0-	-0-	7,345,777
Rents and leases	1,499,782	-0-	-0-	-0-	-0-	(24,785)	1,474,997
Depreciation and amortization	1,073,086	-0-	-0-	21,285	-0-	-0-	1,094,371
Insurance	589,441	-0-	-0-	4,258	-0-	-0-	593,699
Interest	135,550	-0-	-0-	48,909	-0-	-0-	184,459
Miscellaneous	1,377,757	-0-	-0-	-0-	-0-	-0-	1,377,757
Total expenses	52,082,634	-0-	-0-	159,849	-0-	(113,024)	52,129,459
Operating gain	$ 876,175	$ -0-	$ -0-	$ 47,806	$ -0-	$ 24,785	$ 948,766

CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012

	Centerstone of Indiana, Inc	Centerstone Foundation, Inc.	BHOI	Independent Living Alternatives	Supportive Housing	Eliminations	Total
Nonoperating revenues and expenses							
Foundation related expenses	$ -0-	$ (755,443)	$ -0-	$ -0-	$ -0-	$ -0-	$ (755,443)
Contributions and pledges	-0-	437,734	-0-	-0-	-0-	-0-	437,734
Other	3,198	-0-	-0-	-0-	20,000	-0-	23,198
Interest and dividends	6,242	-0-	-0-	-0-	-0-	-0-	6,242
Contributions to supported entities	-0-	(614,952)	-0-	-0-	-0-	-0-	(614,952)
Net assets released from restriction	-0-	614,952	-0-	-0-	-0-	-0-	614,952
Unrealized gain on derivatives	8,234	-0-	-0-	-0-	-0-	-0-	8,234
	17,674	(317,709)	-0-	-0-	20,000	-0-	(280,035)
Excess of revenue over expenses before discontinued operations	893,849	(317,709)	-0-	47,806	20,000	24,785	668,731
Discontinued operations							
Loss from discontinued operations	-0-	-0-	(37,177)	-0-	-0-	-0-	(37,177)
Excess of revenue over (under) expenses	893,849	(317,709)	(37,177)	47,806	20,000	24,785	631,554
Other changes in unrestricted net assets							
Liquidating distributions	-0-	-0-	(409,100)	-0-	-0-	272,733	(136,367)
Change in unrestricted net assets	893,849	(317,709)	(446,277)	47,806	20,000	297,518	495,187
Temporarily restricted							
Contributions and pledges	-0-	642,196	-0-	-0-	-0-	-0-	642,196
Net assets released from restrictions	-0-	(614,952)	-0-	-0-	-0-	-0-	(614,952)
Change in temporarily restricted net assets	-0-	27,244	-0-	-0-	-0-	-0-	27,244
Change in net assets	893,849	(290,465)	(446,277)	47,806	20,000	297,518	522,431
Net assets, beginning of year	22,629,788	3,073,038	446,277	(152,533)	(28)	(297,518)	25,699,024
Net assets, end of year	$ 23,523,637	$ 2,782,573	$ -0-	$ (104,727)	$ 19,972	$ -0-	$ 26,221,455

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CENTERSTONE OF INDIANA, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

Program	Grantor	CFDA #	Expenditures
Major Programs			
Substance Abuse Treatment and HIV Services TCE - Substance Abuse and Mental Health Services Administration (SAMHSA) - Passed through the Indiana Division of Mental Health	DHHS	93.243	$ 1,218,824
Reintegration of Ex-Offenders	DOL	17.270	385,652
Total major programs			1,604,476
Non-Major Programs			
Special Supplemental Nutrition Program for Women, Infants and Children (WIC) - Passed through the Indiana State Department of Health	FNS	10.557	554,051
Supportive Housing Program	DHUD	14.235	322,917
Shelter Plus Care - Passed through the Indiana Housing and Community Development Authority	DHUD	14.238	100,350
Homelessness Prevention and Rapid Re-Housing Program (HPRP) (Recovery Act Funded) - Passed through the Indiana Housing and Community and Development Authority - ARRA	FNS	14.262	13,316
Recovery Act - Eward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	DOJ	16.803	85,358
Projects for Assistance in Transition from Homelessness (PATH) - Passed through the Indiana Division of Mental Health	DHHS	93.150	75,000
Social Services Block Grant - Passed through the Indiana Division of Mental Health	DHHS	93.667	307,738
Block Grants for Community Mental Health Services - Passed through the Indiana Division of Mental Health	DHHS	93.958	491,472
Block Grants for Prevention and Treatment of Substance Abuse - Passed through the Indiana Division of Mental Health	DHHS	93.959	2,266,751
Total non-major programs			4,216,953
Total federal expenditures			$ 5,821,429

Note - The accompanying schedule of expenditures of federal awards for the year ended June 30, 2013 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 consolidated financial statements.

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CENTERSTONE OF INDIANA, INC.

SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS
YEAR ENDED JUNE 30, 2013

Grantor	Expenditures
State	
Indiana Division of Mental Health and Addiction	$ 4,088,732
Other	197,591
Total state awards	4,286,323
Local	
Bartholomew County Funds	521,671
Brown County Funds	122,937
Decatur County Funds	161,348
Fayette County Funds	84,996
Jackson County Funds	264,540
Jefferson County Funds	42,130
Jennings County Funds	115,980
Lawrence County Funds	159,500
Monroe County Funds	577,115
Morgan County Funds	317,342
Owen County Funds	74,426
Rush County Funds	104,898
Randolph County Funds	110,274
Union County Funds	35,196
Wayne County Funds	358,755
Other	20,250
Total local awards	3,071,358
Total state and local awards	$ 7,357,681

Note - The accompanying schedule of state and local awards for the year ended June 30, 2013 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 consolidated financial statements.

CPAs / ADVISORS

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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

Report on the Consolidated Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the 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, the consolidated financial statements of Centerstone of Indiana, Inc. (the Center), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 20, 2013. 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 Center.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

Board of Directors
Centerstone of America
Bloomington, Indiana

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 Center's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether the Center's consolidated financial statements are free from 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 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*.

<u>Purpose of this Report</u>

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Blue & Co., LLC

Indianapolis, Indiana
November 20, 2013

CPAs / ADVISORS

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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Federal Program

We have audited Centerstone of Indiana, Inc. (the Center) compliance 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 the Center's major federal programs for the year ended June 30, 2013. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. 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, Audits of States, Local Governments, and Non-Profit Organizations*. 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.

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Purpose of Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Indianapolis, Indiana
November 20, 2013

CENTERSTONE OF INDIANA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

Section I – Summary of Audit Results:

Financial Statements

Type of auditor's report issued:	Unmodified
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:	Unmodified
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 programs:

CFDA Number	Name of Federal Program or Cluster
93.243	Substance Abuse Treatment and HIV Services TCE - Administration (SAMHSA) - Passed through the
17.270	Reintegration of Ex-Offenders

Dollar threshold used to distinguish between type A and B programs:	$300,000
Auditee qualified as low-risk auditee?	X yes ____ 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