

CENTERSTONE OF INDIANA, INC.

**Consolidated Financial Statements and
Supplemental Schedules**

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

CENTERSTONE OF INDIANA, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Centerstone of America, Inc.:

Report on the Audit of the Consolidated Financial Statements***Opinion***

We have audited the accompanying consolidated financial statements of Centerstone of Indiana, Inc. and its subsidiaries (collectively, the "Corporation"), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows and functional expenses for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Independent Living Alternatives, Inc. d/b/a Cumberland Apartments and Centerstone Supportive Housing, LLC d/b/a Redwood Terrace, wholly owned subsidiaries, included in the consolidated financial statements, whose statements reflect total assets of approximately \$7,152,000 and \$7,349,000 as of June 30, 2022 and 2021, respectively, and total revenues of approximately \$1,048,000 and \$1,107,000 for the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those identified, is based solely on the reports of the other auditors.

Basis for Opinion

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 of the United States and *Guidelines for Examinations of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As explained in Note 2(b) to the consolidated financial statements, the Corporation is part of an affiliated group of entities. The Corporation is included in the reporting entity, Centerstone of America, Inc., and these consolidated financial statements include only the financial position, changes in net assets and cash flows and functional expenses of the Corporation. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporations's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control matters that we identified during the audit.

Report on Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, cash flows and functional expenses of the individual companies, and are not a required part of the consolidated financial statements. The Schedule of Expenditures of State and Local Awards is required by the *Guidelines for Examinations of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts. 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 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report (as part of Centerstone of America, Inc.'s Consolidated Single Audit report) dated November 30, 2022 on our consideration of Centerstone of America, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Centerstone of America, Inc.'s 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 Centerstone of America, Inc.'s internal control over financial reporting and compliance.

LBM, PC

Brentwood, Tennessee
November 30, 2022

CENTERSTONE OF INDIANA, INC.

Consolidated Statements of Financial Position

June 30, 2022 and 2021

	<u>Assets</u>	
	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents	\$ 23,225,053	\$ 18,331,045
Restricted cash	1,114,725	1,006,243
Accounts receivable	3,135,542	3,434,366
Other receivables	3,995,623	4,886,337
Unconditional promises to give, net	112,041	185,572
Prepaid expenses and other current assets	375,360	852,142
	<hr/>	<hr/>
Total current assets	31,958,344	28,695,705
 Property and equipment, net	 34,035,461	 34,269,836
Other assets	59,986	59,986
Beneficial interest	1,279,523	1,536,183
Assets whose use is limited	10,591,139	12,367,419
	<hr/>	<hr/>
Total assets	<u>\$ 77,924,453</u>	<u>\$ 76,929,129</u>
	<u>Liabilities and Net Assets</u>	
Current liabilities:		
Current portion of long-term debt	\$ 725,786	\$ 723,435
Current portion of notes payable to Parent	155,266	140,820
Accounts payable and accrued expenses	3,292,019	2,355,820
Estimated third-party settlements	602,844	583,036
Due to affiliated entities	732,726	1,447,882
Accrued payroll, benefits and taxes	4,427,842	4,519,633
	<hr/>	<hr/>
Total current liabilities	9,936,483	9,770,626
 Long-term debt, excluding current portion, net of deferred financing costs	 4,614,815	 12,063,436
Notes payable to Parent, excluding current portion	4,005,286	3,997,983
Other long-term liabilities	400,000	400,000
	<hr/>	<hr/>
Total liabilities	18,956,584	26,232,045
 Net assets:		
Without donor restrictions:		
Centerstone of Indiana, Inc.	44,771,753	44,146,671
Noncontrolling interests in Kinser Flats, LP	8,882,263	1,336,560
Total net assets without donor restrictions	53,654,016	45,483,231
With donor restrictions	5,313,853	5,213,853
	<hr/>	<hr/>
Total net assets	58,967,869	50,697,084
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 77,924,453</u>	<u>\$ 76,929,129</u>

See accompanying notes to the consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

Consolidated Statements of Activities and Changes in Net Assets

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenue and other support:		
Net client service revenue	\$ 51,292,229	\$ 51,801,833
Public support	36,820,967	34,294,611
Affiliated management fees	727,607	563,615
Other revenue	3,061,571	2,822,655
Total revenue and other support	<u>91,902,374</u>	<u>89,482,714</u>
Expenses:		
Salary and fringe benefits	59,760,513	57,662,132
Professional fees	2,939,803	2,631,481
Facilities and equipment	5,244,114	4,535,612
Depreciation and amortization	1,737,991	1,482,943
Travel and transportation	1,336,142	865,448
Supplies	2,905,906	1,422,649
Communications	834,446	848,061
Affiliated management fees	12,124,049	11,073,653
Interest	276,642	249,910
Miscellaneous	5,247,129	4,002,581
Total expenses	<u>92,406,735</u>	<u>84,774,470</u>
Operating income (loss)	<u>(504,361)</u>	<u>4,708,244</u>

See accompanying notes to the consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

Consolidated Statements of Activities and Changes in Net Assets

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Nonoperating income (expenses):		
Contributions	3,383,983	2,125,960
Realized gain on investments	281,341	1,233,718
Unrealized gain (loss) on investments	(2,371,596)	1,139,171
Interest income, net	210,317	159,983
Gain (loss) on disposal of assets	(13,534)	66,354
Other	(546,652)	(282,526)
Total nonoperating income	<u>943,859</u>	<u>4,442,660</u>
Excess of revenues over expenses	439,498	9,150,904
Other changes in net assets without donor restrictions:		
Contributions to supported entities	(213,234)	(208,460)
Contributions from noncontrolling investor limited partners	7,944,521	-
Total other changes in net assets without donor restrictions	<u>7,731,287</u>	<u>(208,460)</u>
Change in net assets without donor restrictions	<u>8,170,785</u>	<u>8,942,444</u>
Change in net assets without donor restrictions attributable to noncontrolling interests	7,545,703	(64,397)
Change in net assets without donor restrictions attributable to Centerstone of Indiana, Inc.	625,082	9,006,841
Change in net assets with donor restrictions -		
Contributions	<u>100,000</u>	<u>49,235</u>
Change in net assets	8,270,785	8,991,679
Net assets at beginning of year	50,697,084	41,705,405
Net assets at end of year	<u>\$ 58,967,869</u>	<u>\$ 50,697,084</u>

See accompanying notes to the consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating activities:		
Change in net assets	\$ 8,270,785	\$ 8,991,679
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions from noncontrolling investor limited partners	(7,944,521)	-
(Gain) loss on the disposal of assets	13,534	(66,354)
Public support - debt forgiveness	(492,925)	(499,083)
Depreciation and amortization	1,737,991	1,482,943
Asset impairment	-	260,000
Amortization of deferred financing costs	8,852	8,851
Unrealized (gain) loss on investments	2,371,596	(1,139,171)
Realized gain on sale of investments	(281,341)	(1,233,718)
Change in beneficial interest	256,660	(233,084)
Provisions for uncollectible and discount to net present value on promises to give	-	(5,686)
Restricted contributions	(100,000)	(49,235)
Changes in operating assets and liabilities		
Accounts receivable	298,824	572,709
Due to (from) affiliates	(715,156)	151,059
Other receivables	890,714	(155,369)
Unconditional promises to give, net	73,531	176,037
Prepaid expenses and other assets	476,782	149,415
Accounts payable, accrued expenses and other liabilities	936,199	(829,520)
Estimated third-party settlements, net	19,808	1,343,777
Accrued payroll, benefits and taxes	(91,791)	518,123
Net cash provided by operating activities	<u>5,729,542</u>	<u>9,443,373</u>
Investing activities:		
Purchase of property and equipment	(1,517,150)	(936,923)
Proceeds from the sale of property and equipment	-	72,425
Proceeds from the sale or maturity of investments	1,065,063	13,727,017
Purchases of investments	(1,379,038)	(13,915,545)
Net cash used by investing activities	<u>(1,831,125)</u>	<u>(1,053,026)</u>
Financing activities:		
Restricted contributions	100,000	49,235
Proceeds from long-term debt	-	327,950
Principal payments on long-term debt	(6,962,197)	(231,194)
Proceeds from note payable to Parent	165,729	142,141
Principal payments on note payable to Parent	(143,980)	(130,922)
Contributions from noncontrolling investor limited partners	7,944,521	-
Net cash provided by financing activities	<u>1,104,073</u>	<u>157,210</u>
Increase in cash, cash equivalents and restricted cash	5,002,490	8,547,557
Cash, cash equivalents and restricted cash at beginning of year	19,337,288	10,789,731
Cash, cash equivalents and restricted cash at end of year	<u>\$ 24,339,778</u>	<u>\$ 19,337,288</u>
Supplemental cash flows information:		
Cash paid for interest on long-term debt	\$ 37,661	\$ 20,765
Cash paid for interest on notes payable to related party	<u>\$ 230,129</u>	<u>\$ 220,294</u>
Noncash investing and financing activities:		
Indiana Housing and Community Development Authority debt forgiveness	\$ 492,925	\$ 499,083
Property and equipment acquired with long-term debt and long-term liabilities	<u>\$ -</u>	<u>\$ 4,204,803</u>
Property and equipment received by the Corporation transferred from Centerstone of America, Inc.	\$ -	\$ 1,016,445
Property and equipment classified as held for sale in other current assets	<u>\$ -</u>	<u>\$ 498,187</u>

See accompanying notes to the consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

Consolidated Statement of Functional Expenses

Year ended June 30, 2022

	Child Community Based Care	Adult Community Based Care	Medical	Housing	SUD Residential Treatment	Foster Care	Intake, Crisis, Access and Outpatient Counseling	Other	Total Program Services	Management and General	Fundraising	Total
Expenses:												
Salary and fringe benefits	\$ 24,245,845	\$ 13,089,132	\$ 8,146,484	\$ 4,037,623	\$ 4,590,336	\$ 1,185,388	\$ 1,549,719	\$ 1,096,457	\$ 57,940,984	\$ 1,819,529	\$ -	\$ 59,760,513
Professional fees	669,954	103,924	558,886	25,918	16,215	1,144,451	63,432	357,023	2,939,803	-	-	2,939,803
Facilities and equipment	1,959,869	845,979	379,631	972,124	541,367	67,992	126,927	306,719	5,200,608	43,506	-	5,244,114
Depreciation and amortization	309,260	342,669	90,084	195,891	95,705	2,198	31,112	657,394	1,724,313	13,678	-	1,737,991
Travel and transportation	602,085	316,843	65,986	136,232	96,032	54,340	9,369	18,671	1,299,558	36,584	-	1,336,142
Supplies	161,130	153,811	1,790,320	310,110	362,647	15,394	4,550	79,000	2,876,962	28,944	-	2,905,906
Communications	338,177	272,252	21,058	101,733	52,120	15,498	10,679	6,285	817,802	16,644	-	834,446
Affiliated management fees	-	-	-	-	-	-	-	29,491	29,491	11,770,504	324,054	12,124,049
Interest	-	50,835	133,304	17,230	15,747	4,886	9,300	45,340	276,642	-	-	276,642
Miscellaneous	553,830	322,697	129,878	135,064	58,059	58,412	19,346	3,926,188	5,203,474	43,655	-	5,247,129
Total expenses	\$ 28,840,150	\$ 15,498,142	\$ 11,315,631	\$ 5,931,925	\$ 5,828,228	\$ 2,548,559	\$ 1,824,434	\$ 6,522,568	\$ 78,309,637	\$ 13,773,044	\$ 324,054	\$ 92,406,735

See accompanying notes to the consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

Consolidated Statement of Functional Expenses

Year ended June 30, 2021

	Child Community Based Care	Adult Community Based Care	Medical	Housing	SUD Residential Treatment	Foster Care	Intake, Crisis, Access and Outpatient Counseling	Other	Total Program Services	Management and General	Fundraising	Total
Expenses:												
Salary and fringe benefits	\$ 23,587,993	\$ 12,595,523	\$ 7,732,354	\$ 4,046,792	\$ 4,131,544	\$ 1,129,839	\$ 1,652,007	\$ 1,461,565	\$ 56,337,617	\$ 1,324,515	\$ -	\$ 57,662,132
Professional fees	668,596	108,004	311,182	4,803	3,164	1,347,261	60,027	128,444	2,631,481	-	-	2,631,481
Facilities and equipment	1,144,188	1,128,758	429,642	830,761	412,760	37,764	129,949	373,028	4,486,850	48,762	-	4,535,612
Depreciation and amortization	309,566	430,789	109,593	206,543	88,988	1,423	38,438	283,344	1,468,684	14,259	-	1,482,943
Travel and transportation	440,041	261,839	18,694	59,588	29,316	37,689	1,581	12,841	861,589	3,859	-	865,448
Supplies	202,881	100,663	111,176	237,842	281,595	13,737	4,415	443,951	1,396,260	26,389	-	1,422,649
Communications	372,228	216,102	32,113	90,140	45,573	17,136	16,496	47,215	837,003	11,058	-	848,061
Affiliated management fees	-	-	-	-	-	-	-	-	-	11,073,653	-	11,073,653
Interest	-	200,818	2,697	488	343	-	-	45,564	249,910	-	-	249,910
Miscellaneous	462,710	1,600,022	223,554	107,440	16,164	26,456	21,620	1,357,066	3,815,032	187,549	-	4,002,581
Total expenses	\$ 27,188,203	\$ 16,642,518	\$ 8,971,005	\$ 5,584,397	\$ 5,009,447	\$ 2,611,305	\$ 1,924,533	\$ 4,153,018	\$ 72,084,426	\$ 12,690,044	\$ -	\$ 84,774,470

See accompanying notes to the consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

(1) Nature of operations

Centerstone of Indiana, Inc. and its subsidiaries (collectively, the "Corporation") are private, non-profit organizations that provide multi-funded, locally directed mental health and addiction services to people of all ages. The Corporation 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 Corporation 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 Corporation employs qualified psychiatrists, psychologists, social workers and others to consult with and treat individuals using the facilities of the Corporation. 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 Corporation receives a majority of its revenue from client services and federal, state and county grants.

(2) Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of Centerstone of Indiana, Inc., Centerstone Foundation, Inc. (the "Foundation"), Independent Living Alternatives, Inc. d/b/a Cumberland Apartments ("Cumberland"), Centerstone Supportive Housing, LLC d/b/a Redwood Terrace ("Supportive Housing"), Kinser Flats, LP ("Kinser Flats") and Centerstone Health Services, Inc. ("Centerstone Health Services").

The Corporation is the sole member of the Foundation. The Foundation is a not-for-profit organization that receives contribution and support for the affiliated entities of Centerstone of America, Inc. (the "Supported Organizations").

Cumberland 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 Federal Housing Administration ("FHA") regulatory agreements governing the operation of the apartment project with the FHA Section of the Department of Housing and Urban Development ("HUD").

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, the Corporation. Supportive Housing was formed to develop, own and operate a 60-unit affordable housing rental project and participates in the 1602 Tax Credit Exchange Program mortgage administered through the Indiana Housing and Community Development Authority.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

Cumberland and Supportive Housing are consolidated as the Corporation is the sole corporate member.

Kinser Flats is a limited partnership formed to acquire, construct, own, and operate a 50-unit affordable housing apartment community in Bloomington, 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 partners. The partnership is eligible for the low-income housing tax credit in accordance with Section 42 of the Internal Revenue Code as enacted by the Tax Reform Act of 1986 on qualified low-income units. Generally, the low-income housing tax credit is computed as a percentage of the qualified basis of the property and is allowed annually during a period of ten years commencing with the year the building was placed in service. The apartment complex began operating during June 2021. As the Corporation is the sole general partner and controls the limited partnership, Kinser Flats is consolidated. The term of the partnership shall extend until December 31, 2070, unless sooner terminated as provided in the partnership agreement.

Centerstone Health Services, Inc. is a Federally Qualified Health Center ("FQHC") which operates health clinics located in Indiana that provide comprehensive, accessible, quality healthcare regardless of income to promote wellness and restore health. The Corporation pays certain expenses on behalf of the FQHC and is reimbursed accordingly.

All material intercompany accounts and transactions have been eliminated.

(b) Affiliated entities and related parties

The Corporation is part of an affiliated group of entities. The Corporation is included in the reporting entity, Centerstone of America, Inc. (the "Parent"), and these consolidated financial statements include only the financial position, changes in net assets, cash flows and functional expenses of the Corporation and its subsidiaries located in the state of Indiana.

The Parent is the holding company and sole corporate member of the Corporation. Centerstone of America, Inc. has the following additional entities under common control: Centerstone Military Services, Centerstone of Tennessee, Inc., Centerstone of Illinois, Inc., Centerstone Research Institute, Centerstone of Florida, Inc. and Homewood Insurance Company, Inc. (the "affiliated entities").

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

(c) Basis of presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Corporation and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets that are not restricted by donor-imposed restrictions and available to support operations. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Corporation, 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.

Net assets with donor restrictions - Net assets resulting from contributions and other inflows of net assets whose use by the Corporation is limited by donor-imposed restrictions. These include net assets with donor restrictions, some of which may or will be met either by action of the Corporation and/or passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. These also include net assets with donor restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Corporation. Net assets with donor restrictions includes endowment funds, which are subject to restrictions of gift instruments requiring that the principal be maintained in perpetuity, and invested for the purpose of producing present and future income.

(d) Cash and cash equivalents

For purposes of reporting cash flows, the Corporation considers all liquid investments with an original maturity of three months or less to be cash equivalents. The Corporation has cash balances totaling \$22,371,886 and \$17,687,055 at June 30, 2022 and 2021, respectively, that are managed by the Parent as a part of the Parent's consolidated cash management program. The Parent maintains these deposits with banks and FDIC insurance coverage for these deposits are retained by the Parent. The Corporation believes it is not exposed to any significant credit risk on its cash and cash equivalents.

(e) Restricted cash

The Corporation's restricted cash consists of funds held on behalf of clients. A corresponding liability is recorded in accounts payable and accrued expenses as the Corporation receives these fiduciary funds.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

(f) Investments and investment income

Investments in equity securities and debt securities are measured at fair value in the consolidated statements of financial position and include the beneficial interest and assets whose use is limited. 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.

(g) Assets whose use is limited

During fiscal year 2013, in order to provide additional oversight, the Foundation received the assets in Centerstone Endowment Trust (the "Trust") through an equity transfer, after receiving approval from the Tennessee Attorney General. Originally, Centerstone of Tennessee, Inc. established the Trust for the purpose of serving as a charitable endowment fund for the support of the Centerstone of Tennessee, Inc.'s mission and operations funded by an initial gift from the Dede Wallace Foundation. As of June 30, 2012, Centerstone of Tennessee, Inc. was the sole trustee of the Trust. After the approved transfer, the Foundation (a subsidiary of Centerstone of Indiana, Inc.) became the sole trustee to coordinate the support to the mission of the communities served by all the affiliated entities of Centerstone of America, Inc.

The terms of the Trust require annual distributions to the affiliated entities of Centerstone of America, Inc. of an amount equal to 3.75% of the average of the net fair values of the underlying assets as determined at the end of the three most recently completed calendar years. The Supported Organizations are also required to pay a management fee to the Foundation equal to 1.50% of the annual distribution.

(h) Accounts receivable

The accounts receivable balance represents the unpaid amounts billed to clients and third-party payors. Implicit and explicit price concessions are recorded to report receivables for client care services at net realizable value.

CENTERSTONE OF INDIANA, INC.

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Client accounts receivable are reduced by appropriate implicit price concessions based on the Corporation'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 implicit price concessions. For receivables associated with services provided to clients who have third-party coverage, the Corporation analyzes contractually due amounts and provides explicit price concessions and implicit price concessions, if necessary. For receivables associated with self-pay payments, which includes both clients without insurance and clients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Corporation records implicit price concessions in the period of service on the basis of its past experience, which indicates that many clients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

(i) Other receivables

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

(j) Property and equipment and depreciation

Property and equipment are stated at cost. Depreciation is provided over the assets' estimated useful lives using the straight-line method as follows:

Furniture and equipment	3 – 10 years
Buildings	18 – 40 years
Building and land improvements	5 – 20 years

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is recorded as a change in net assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as without donor restrictions, 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 with donor restrictions. 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.

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(k) Net client service revenue

The Corporation recognizes net client 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 implicit and explicit concessions and principally for clients covered by Medicare, Medicaid, and managed care and other health plans. Gross client service revenue is recorded in the accounting records using the established rates for the type of service provided to the client. The Corporation recognizes an estimated explicit price concession to reduce gross client charges to the estimated net realizable amount for services rendered based upon previously agreed to rates with a payor. The Corporation utilizes the client billing system to calculate explicit price concessions on a payor by payor basis based on the rates in effect for each primary third-party payor. The management of the Corporation continually reviews the 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. See Note 3 for further discussion of revenue recognition.

Payors include federal and state agencies, including Medicare and Medicaid, managed care health plans, commercial insurance companies and employers. These third-party payors provide payments to the Corporation 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 Corporation. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on the Corporation's liquidity, financial condition, results of operations and cash flows.

Included in net client service revenue are reimbursements from Medicare, Medicaid, commercial payors and self-pay clients. As part of the Medicaid program, the Corporation participates in the Medicaid Rehabilitation Option ("MRO"). The MRO program includes a Federal portion and a State portion. As part of the State plan related to Indiana, the Corporation 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.

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(l) Charity care

The Corporation provides care to clients 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 Corporation does not pursue collection. Amounts for forgone charges related to charity care are approximately \$810,000 and \$1,295,000 for the years ended June 30, 2022 and 2021, respectively.

Of the Corporation's total unrestricted operating expense reported pertaining to the entities providing client care, an estimated \$469,000 and \$662,000 arose from providing services to charity clients during the years ended June 30, 2022 and 2021, 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 clients. The ratio of cost to charges is calculated based on the Corporation's total expenses divided by gross client service revenue.

(m) Medicaid funds recovery

The Corporation participates in the Medicaid Funds Recovery Program. Funding for the Medicaid Funds Recovery Program is available through the Medicaid Program to reimburse expenses 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.

(n) Public support

The Corporation receives federal, state and county grants for providing services in specific program areas. Receipt of these funds is subject to the fulfillment of certain obligations by the Corporation 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 Corporation 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 Corporation has contracts with the State of Indiana to provide community mental health services. During 2022 and 2021, the Corporation was paid by the State based upon applicable contractually agreed to stipulations.

CENTERSTONE OF INDIANA, INC.

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The Corporation derives a significant portion of its revenue from third-party payors and federal, state and county funding programs. The receipt of future revenues by the Corporation is subject to among other factors, federal, state and county 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.

(o) Contributions and unconditional promises to give

Contributions received and unconditional promises to give are recorded as revenue without donor restrictions or revenue with donor restrictions depending on the existence of donor restrictions.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restriction.

If a restriction is fulfilled in the same accounting period in which the contribution is received, the contribution is reported as without donor restrictions.

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

In-kind contributions are recorded based on their estimated fair value at the date of donation.

The Foundation sends contribution support to affiliated entities to help further the mission of those organizations. Amounts sent to Centerstone of Indiana, Inc. have been eliminated in consolidation of these financial statements.

(p) Advertising costs

The Corporation uses advertising to promote its programs and services among the general public. The advertising costs are expensed as incurred. Advertising costs for the Corporation totaled approximately \$114,000 and \$75,000 for the years ended June 30, 2022 and 2021, respectively.

CENTERSTONE OF INDIANA, INC.

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(q) Income taxes

The Corporation and its subsidiaries, except for Supportive Housing and Kinser Flats, are organized as not-for-profit corporations under section 501(c)(3) of the United States Internal Revenue Code ("IRC"). IRC 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 this entity. Kinser Flats is organized as a limited partnership, whereby net taxable income is taxed directly to the partners and not this entity. As such, Supportive Housing and Kinser Flats are generally exempt from income taxes. Accordingly, no current or deferred provision for income taxes was made for 2022 and 2021. The Corporation and its subsidiaries are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only. The Corporation and its subsidiaries have filed their federal and state income tax returns for periods through June 30, 2021. Thus, the financial statements do not include any provision for Federal or State income taxes.

Accounting principles generally accepted in the United States of America ("GAAP") require management to evaluate tax positions taken and recognize a tax liability if it is more likely than not that an uncertain tax position would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken and has concluded that as of June 30, 2022 and 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Corporation and its subsidiaries are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(r) Noncontrolling interests

The consolidated financial statements include all assets, liabilities, revenues and expenses of entities in which the Corporation has a majority ownership interest or has other rights sufficient to allow the Corporation to consolidate the entity. As of June 30, 2022, Kinser Flats is the only entity with third-party noncontrolling ownership interest. Kinser Flats is a limited partnership and the Corporation is the general partner with 0.01% ownership.

(s) Performance indicator and operating indicator

The consolidated statements of activities and changes in net assets include a performance indicator, excess of revenues over expenses. Changes in net assets without donor restrictions which would be excluded from the performance indicator, consistent with industry practice, include contributions to supported entities and contributions from noncontrolling limited partners. The consolidated statements of activities and changes in net assets also include an operating indicator, operating income (loss). Certain nonoperating items are excluded from the operating indicator, including contributions from donors and related parties, realized and unrealized gains (losses) on investments, investment income, gains on disposal of assets, and other nonoperating income.

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(t) Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(u) Functional expenses

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Corporation. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and fringe benefits, professional fees, facilities, equipment, depreciation and amortization, travel and transportation, supplies, communications, interest, and miscellaneous expenses. Other than depreciation and amortization, these costs are allocated based on management's estimates of time and effort involved for each program or supporting function. Depreciation and amortization expense is allocated based on management's assessment of administrative square footage used as a percentage of the total facility's square footage.

(v) Events occurring after reporting date

The Corporation has evaluated events and transactions that occurred between June 30, 2022 and November 30, 2022, which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

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(w) COVID-19 pandemic

In January 2020, the Secretary of the U.S. Department of Health and Human Services ("HHS") declared a national public health emergency due to a novel strain of coronavirus ("COVID-19"). In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. During March 2020, the global pandemic began to affect the Corporation's facilities, employees, clients, communities, business operations and financial performance, as well as the broader U.S. economy and financial markets. The Corporation is committed to protecting the health of our communities and has been responding to the evolving COVID-19 situation while taking steps to provide quality care and protect the health and safety of clients and employees. All of the Corporation's facilities are closely following infectious disease protocols, as well as recommendations by the Centers for Disease Control and Prevention ("CDC") and local health officials. The Corporation has taken steps to secure its supply chain, expanded telehealth capabilities and implemented emergency planning in directly impacted markets. Nevertheless, COVID-19 is impacting the Corporation's business and may have an impact on its financial results that the Corporation is not currently able to quantify. Continuing disruptions to the Corporation's business as a result of the COVID-19 pandemic could continue to have an effect on its results of operations, financial condition, and cash flows.

As part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), the U.S. government announced it would offer relief funding to eligible health care providers. During the years ended June 30, 2022 and 2021, the Corporation participated in certain relief programs offered through the CARES Act including distributions relating to portions of the Public Health and Social Services Emergency Fund ("PHSSE Fund").

Amounts received from the PHSSE Fund are subject to the terms and conditions of the program, including certification that payment will be used to prevent, prepare for and respond to COVID-19 and shall reimburse the recipient only for health care related expenses or lost revenues that are attributable to COVID-19. For the year ended June 30, 2021, the Corporation received approximately \$3,865,000 in general distributions which is included within in public support in the accompanying consolidated statements of activities and changes in net assets for the year ended June 30, 2021. For the year ended June 30, 2022, the Corporation received approximately \$2,628,000 in general distributions which is included within in public support in the accompanying consolidated statements of activities and changes in net assets for the year ended June 30, 2022.

The Corporation also received additional funding from the State of Indiana. For the years ended June 30, 2022 and 2021, approximately \$2,341,000 and \$948,000, respectively, was received and is recorded within public support on the accompanying consolidated statements of activities and changes in net assets.

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Notes to the Consolidated Financial Statements

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(3) Revision of prior year consolidated financial statements

The Corporation has revised its consolidated financial statements as of and for the year ended June 30, 2021 to reflect a correction of error in the presentation of the limited partners contributions to Kinser Flats. The limited partners were admitted as partners during the year ended June 30, 2020 and contributed \$1,400,957 for the construction of the affordable housing apartment community. When received, these amounts were reflected in long-term liabilities instead of partner contributions. As such, management determined these contributions should be accounted for retrospectively. The effect of the revision as of and for the year ended June 30, 2021 was to decrease other long-term liabilities and increase net assets without donor restrictions by \$1,400,957. This also resulted in the presentation of noncontrolling interest to reflect the limited partners portion of the change net assets without donor restrictions allocated to the limited partners which resulted in \$64,397 of change in net assets without donor restrictions to be allocated to the noncontrolling interest for the year ended June 30, 2021.

(4) Revenue from contracts with customers

Under Accounting Standards Codification ("ASC") Topic 606 ("ASC 606"), *Revenue from Contracts with Customers*, a contract with a client is an agreement which both parties have approved (whether explicitly or implicitly), that creates enforceable rights and obligations, has commercial substance, where payment terms are identified and collectibility is probable. Once the Corporation has entered into a contract, it is evaluated to identify performance obligations under the contract by transferring the promised services to clients in an amount that reflects the consideration the Corporation expects to receive in exchange for providing care.

The Corporation evaluated the nature, amount, timing and uncertainty of revenue and cash flows using the five-step model provided within ASC 606. The services provided by the Corporation have no fixed duration and can be terminated by the client or the facility at any time, and therefore, each treatment is its own stand-alone contract. Services ordered by a healthcare provider in an episode of care are not separately identifiable and therefore have been combined into a single performance obligation for each contract. The Corporation recognizes revenue as its performance obligations are completed. The performance obligation is satisfied over time as the client simultaneously receives and consumes the benefits of the healthcare services provided. For outpatient services, the Corporation recognizes revenue equally based on the number of attended sessions. Typically, third-party payors are billed within several days of the service being performed or the client being discharged, and payments are due based on contract terms. Additionally, there may be ancillary services which are not included in the daily rates for routine services, but instead are treated as separate performance obligations satisfied at a point in time when those services are rendered.

Notes to the Consolidated Financial Statements

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The contractual relationships with clients, in most cases, also involves a third-party payor including Medicare, Medicaid and other commercial insurance companies. The transaction price is determined based upon the Corporation's established rates or estimated cost reimbursement rates, as applicable, reduced by estimates for explicit and implicit price concessions using a portfolio approach to group contracts with similar characteristics and an analysis of historical collection trends. Explicit price concessions include contractual adjustments which result from differences between the Corporation's established rates and the amounts estimated to be payable by third parties. Implicit price concessions include discounts provided to private pay, uninsured clients or other payors, and adjustments arising from the Corporation's failure to obtain authorizations acceptable to the payor or other specified billing documentation, changes in coverage or payor, and other reasons unrelated to credit risk. Explicit price concessions and discounts are based on discount policies and historical collections. Subsequent changes to the estimate of the transaction price are recorded as adjustments to net client service revenue in the year of change. During the years ended June 30, 2022 and 2021, the impact of changes to the inputs used to determine the transaction price was considered immaterial to the current period.

Certain contracts contain variable consideration. However, it is unlikely a significant reversal of revenue will occur when the uncertainty is resolved, and therefore, the Corporation has included the variable consideration in the estimated transaction price. The Corporation considers the client's ability and intent to pay the amount of consideration upon admission. Subsequent changes that are determined to be the result of an adverse change in the client's ability to pay (i.e. change in credit risk) are recorded as bad debt expense or provision for credit losses, which is included as a component of operating expenses in the consolidated statements of activities and changes in net assets. Provision for credit losses for the years ended June 30, 2022 and 2021 was not significant.

(5) Third-party reimbursement program

The Corporation has estimated third-party assets and liabilities for Medicare, Medicaid, MRO, grants and other programs reflecting 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 Corporation has estimated net third-party settlements due to third-party payors of approximately \$603,000 and \$583,000 at June 30, 2022 and 2021, respectively, which are included in current liabilities in the accompanying consolidated statements of net position.

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(6) Credit concentrations

The mix of the accounts receivable as of June 30, 2022 and 2021 and net client service revenue for the years ended June 30, 2022 and 2021 are as follows:

	<u>Receivables</u>		<u>Revenue</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Medicare	2 %	4 %	1 %	1 %
Medicaid	64 %	60 %	83 %	82 %
Self-pay	2 %	2 %	1 %	1 %
Other third-party payors	<u>32 %</u>	<u>34 %</u>	<u>15 %</u>	<u>16 %</u>
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

(7) Beneficial interest in Community Foundation of Middle Tennessee

The Foundation is the trustee of the beneficial interest in the Community Foundation of Middle Tennessee ("Community Foundation"). Centerstone of Tennessee, Inc. transferred certain funds to the Community Foundation and named Centerstone of Tennessee, Inc. as the specified beneficiary. The intended use of the Agency Endowment Fund is to support the mission of serving the needy for the Corporation. 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 the Community Foundation's expressed intent. Centerstone of Tennessee, Inc. 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 as of June 30, 2022 and 2021. The following is a summary of the investment expenses and earnings for the years ended June 30, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Beneficial interest in Community Foundation, beginning of year	\$ 1,536,183	\$ 1,303,099
Investment expenses	(9,846)	(9,114)
Investment gain (loss)	(169,505)	310,198
Grants paid out	<u>(77,309)</u>	<u>(68,000)</u>
Beneficial interest in Community Foundation, end of year	<u>\$ 1,279,523</u>	<u>\$ 1,536,183</u>

Fair value of the beneficial interest is estimated as the net asset value as a practical expedient ("NAV") 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 are no observable market transactions and because the Foundation can only redeem the resources at NAV for its own use, subject to the approval of the governing board of the Community Foundation, this fair value measurement is not classified in the fair value hierarchy as permitted by Financial Accounting Standards Board ("FASB") ASC 820, *Fair Value Measurement* (Note 9).

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(8) Assets whose use is limited

The composition of assets limited as to use at June 30, 2022 and 2021 is set forth in the following table:

	<u>2022</u>	<u>2021</u>
Cash	\$ 130,631	\$ 49,998
Common stock	6,350,586	8,175,333
Mutual funds	3,769,362	4,142,088
Other alternative investments	<u>340,560</u>	<u>-</u>
	<u>\$ 10,591,139</u>	<u>\$ 12,367,419</u>

(9) 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 Corporation 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.

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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, 2022 and 2021.

- *Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Corporation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Corporation are deemed to be actively traded.
- *Common stocks:* Valued at the daily closing price as reported on an active market on which the common stocks are traded.
- *Beneficial interest in outside trust:* Valued at fair value as reported by the trustee, which represents the Corporation's pro rata interest in the net assets of the trust, substantially all of which are valued on a mark-to-market basis.

The following table sets forth by level, within the fair value hierarchy, the Corporation's assets and liabilities measured at fair value on a recurring basis at June 30, 2022 and 2021:

Fair Value Measurements as of June 30, 2022 using the following inputs				
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets whose use is limited				
Common stocks				
U.S. equity	\$ 3,205,883	\$ 3,205,883	\$ -	\$ -
Global equity	963,058	963,058	-	-
International equity	1,428,430	1,428,430	-	-
International growth equity	753,215	753,215	-	-
Mutual funds				
Fixed income	<u>3,769,362</u>	<u>3,769,362</u>	<u>-</u>	<u>-</u>
	10,119,948	<u>\$ 10,119,948</u>	<u>\$ -</u>	<u>\$ -</u>
Cash	130,631			
Investments measured at NAV as a practical expedient (a)	<u>340,560</u>			
	<u>\$ 10,591,139</u>			
Beneficial interest - funds held by Community Foundation	<u>\$ 1,279,523</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,279,523</u>

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**Fair Value Measurements as of
June 30, 2021 using the following inputs**

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets whose use is limited				
Common Stock				
U.S equity	\$ 4,140,532	\$ 4,140,532	\$ -	\$ -
Global equity	1,226,503	1,226,503	-	-
International equity	1,835,945	1,835,945	-	-
International growth equity	972,353	972,353	-	-
Mutual funds				
Fixed income	<u>4,142,088</u>	<u>4,142,088</u>	<u>-</u>	<u>-</u>
	12,317,421	\$ <u>12,317,421</u>	\$ <u>-</u>	\$ <u>-</u>
Cash	<u>49,998</u>			
	<u>\$ 12,367,419</u>			
Beneficial interest - funds held by Community Foundation	\$ <u>1,536,183</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,536,183</u>

(a) Certain investments are measured at NAV as a practical expedient to estimate fair value and, therefore, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements activities and changes in net assets.

The following table summarizes investments for which fair value is measured using the NAV per share practical expedient as of June 30, 2022 and 2021.

<u>Description</u>	<u>Fair Value June 30, 2022</u>	<u>Fair Value June 30, 2021</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Real estate investment trust funds	\$128,250	\$ -	\$771,750	3 years and then quarterly	None
Business development company	\$212,310	\$ -	\$687,790	3 years	None

The Foundation's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances.

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Notes to the Consolidated Financial Statements

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(10) Unconditional promises to give

Unconditional promises to give consist of pledges restricted to the support of the Corporation. Promises to give are discounted to the present value of the estimated future cash flows and also include an allowance for estimated uncollectible pledges, if any.

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Promises receivable in less than one year	\$ 112,183	\$ 186,156
Less net present value discount	(142)	(584)
Less allowance for uncollectible pledges	-	-
	<u>\$ 112,041</u>	<u>\$ 185,572</u>

(11) Property and equipment

A summary of property and equipment as of June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Land	\$ 2,835,776	\$ 2,847,776
Buildings and improvements	47,677,067	45,311,566
Furnishings, equipment and vehicles	4,109,351	4,093,278
Construction in progress	-	561,646
	54,622,194	52,814,266
Accumulated depreciation and amortization	<u>(20,586,733)</u>	<u>(18,544,430)</u>
	<u>\$ 34,035,461</u>	<u>\$ 34,269,836</u>

During the year ended June 30, 2021, the Corporation recognized impairment on buildings totaling \$260,000. The buildings are classified as held for sale and recorded at estimated fair value at June 30, 2021. The held for sale buildings, which amount to \$498,187 at June 30, 2021, are reflected in other current assets on the consolidated statements of financial position. The buildings were sold during the year ended June 30, 2022. The associated gain on the sale of the buildings is reflected in nonoperating income on the consolidated statements of activities and changes in net assets.

(12) Liquidity and availability

The Corporation regularly monitors liquidity required to meet its operating needs and other commitments, while also striving to maximize the investment of its available funds. As part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

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Financial assets available for general expenditures within one year of the consolidated statements of financial position are as follows at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 23,225,053	\$ 18,331,045
Patient accounts receivable	3,256,127	3,434,366
Other receivables	3,995,623	4,886,337
Unconditional promises to give, net	<u>15,664</u>	<u>120,317</u>
	<u>\$ 30,492,467</u>	<u>\$ 26,772,065</u>

The remaining \$96,377 and \$65,255, of unconditional promises to give included in current assets at June 30, 2022 and 2021, respectively, contain specific donor restrictions that limit their use. As such, these have been excluded above.

(13) Long-term debt

A summary of long-term debt as of June 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Mortgage payable to Indiana Housing and Community Development Authority ("IHCD"), 0% interest, due 2026, forgiven over a 15 year period, collateralized by certain real estate.	\$ 3,642,575	\$ 4,135,500
Indiana Department of Finance Authority ("IDFA") Series 2002 variable rate demand economic development revenue bonds, variable interest rate of 1 month LIBOR (1.45% at June 30, 2022), \$200,000 redeemed on December 1st each year, final payment due December 2022, collateralized by certain real estate and accounts receivable.	200,000	400,000
Note payable to financial institution, used in the construction of Kinser Flats. Available amount up to \$7,200,000 with fixed interest rate of 4.83%. All outstanding balance and accrued interest due September 2021, collateralized by certain real estate.	-	6,740,513

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

Mortgage loan with U.S. Department of Housing and Urban Development. Monthly installments of principal and interest are approximately \$5,000 with a maturity date of July 1, 2031. Interest is being charged at a fixed rate of 9.25%, collateralized by certain real estate.

364,868 386,552

Note payable to IHCD used in the construction of Kinser Flats. Interest is being charged at a fixed rate of 2.00% with entire unpaid principal and interest due August 31, 2036.

500,000 500,000

Note payable to financial institution through the Affordable Housing Program (AHP) used in construction of Kinser Flats, due November 15, 2036, forgivable over a 15 year period, collateralized by certain real estate.

500,000 500,000

Note payable through the HOME Investment Partnership Program, 0% interest, due December 31, 2039, forgiven over a 20 year period.

137,584 137,584

Total long-term debt

5,345,027 12,800,149

Less deferred financing costs

4,426 13,278

Less current portion

725,786 723,435

Long-term debt, excluding current portion

\$ 4,614,815 \$ 12,063,436

The 2002 bonds are secured by a letter of credit. Under the terms of the letter of credit and reimbursement agreement, the Corporation 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, 2022.

The mortgage loan with the IHCD is interest free and forgivable over a 15 year period, commencing when the associated property is placed into operation and as long as Supportive Housing manages and operates the Project for its intended purpose.

The note payable to a financial institution used in the construction of Kinser Flats was originally due in September 2021. In July 2021, the construction loan to financial institution was repaid to the financial institution through proceeds from the investor limited partners.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

Aggregate annual maturities of long-term debt as of June 30, 2022 is as follows:

<u>Year</u>	<u>Amount</u>
2023	725,786
2024	528,895
2025	531,653
2026	534,666
2027	537,685
2028 and later years	<u>2,486,342</u>
	<u>\$ 5,345,027</u>

The Corporation is required to maintain certain financial ratios and comply with various other restrictive covenants as defined in the agreements.

The Corporation capitalized interest relating to construction projects of approximately \$83,000 and \$241,000 for the years ended June 30, 2022 and 2021.

(14) Net assets

The net assets with donor restrictions consist of the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Endowments	\$ 4,010,645	\$ 4,010,645
Beneficial Interest	1,000,000	1,000,000
Center for Clinical Excellence	125,992	125,992
Centerstone of Florida, Inc. hospital renovations	100,000	-
Other	<u>77,216</u>	<u>77,216</u>
	<u>\$ 5,313,853</u>	<u>\$ 5,213,853</u>

The earnings on the endowment assets can be used for general purposes. The endowment is subject to endowment spending policy and appropriation.

There were no net assets with donor restrictions released from restriction for the years ended June 30, 2022 and 2021.

(15) Endowment funds

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

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

The investment objective is to meet or exceed the market index, or blended market index, selected and agreed upon by the Corporation or provide an acceptable return with lower volatility or credit risk. In order to meet its needs, the investment strategy of the Corporation 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 without donor restrictions income and the unrealized gains and losses periodically.

The Corporation has a policy of appropriating for distribution an amount of earned income based on a stipulated formula.

The endowment net assets by type of fund as of June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Donor-restricted endowment investment funds	\$ 4,010,645	\$ 4,010,645
Beneficial interest funds	<u>1,000,000</u>	<u>1,000,000</u>
Total endowment funds	<u>\$ 5,010,645</u>	<u>\$ 5,010,645</u>

The Corporation 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 Corporation classifies as net assets with donor restrictions (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.

In accordance with the law, the Corporation 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 Corporation, and (7) the Corporation's investment policies.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

Changes in endowment net assets for the years ended June 30, 2022 and 2021 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance at June 30, 2020	\$ 5,795,357	\$ 4,010,645	\$ 9,806,002
Net investment gains	2,532,252	-	2,532,252
Contributions	<u>29,165</u>	<u>-</u>	<u>29,165</u>
Balance at June 30, 2021	8,356,774	4,010,645	12,367,419
Net investment losses	(1,880,038)	-	(1,880,038)
Contributions	<u>103,758</u>	<u>-</u>	<u>103,758</u>
Balance at June 30, 2022	<u>\$ 6,580,494</u>	<u>\$ 4,010,645</u>	<u>\$ 10,591,139</u>

Endowment net assets without donor restrictions identified in the table above represent Board designated net assets and exclude the \$1,000,000 of beneficial interest funds.

(16) Public support

The composition of public support during the years ended June 30, 2022 and 2021 is set forth in the following table:

	<u>2022</u>	<u>2021</u>
U.S. Department of Housing and Urban Development	\$ 404,842	\$ 445,399
U.S. Department of Health and Human Services	12,585,061	13,701,434
U.S. Department of Agriculture	480,090	471,051
Medicaid administrative outreach	3,796,308	3,034,293
Indiana Division of Mental Health	8,799,537	9,160,549
Indiana Family and Social Services Administration	2,340,966	-
County and other local funds	7,492,396	6,043,440
Other public support	<u>921,767</u>	<u>1,438,445</u>
	<u>\$ 36,820,967</u>	<u>\$ 34,294,611</u>

(17) Defined contribution plan

The Corporation has a defined contribution plan (the "Plan"). Contributions are made to employees who meet the eligibility requirements. The Plan includes an employer match up to 3% of eligible compensation. Employer contributions to the Plan were approximately \$812,000 and \$829,000 for the years ended June 30, 2022 and 2021, respectively.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

(18) Affiliated entities and related party transactions

The Corporation entered into certain working capital, administrative and general transactions with its Parent and affiliated entities as disclosed in Note 2(b) and Note 18. The Corporation has recorded a net related party payable as of June 30, 2022 and 2021. There are no contractual settlement terms for amounts due to/from affiliates and are effectively settled in the normal course of operations as a part of the Parent's cash management program. Balances due from affiliates are considered to be "due on demand" and would be settled by the Parent to fulfill the Corporation's liquidity needs if necessary. For the years ended June 30, 2022 and 2021, the Corporation incurred affiliated management fees for services provided by its Parent which include finance, payroll, human resources, marketing, executive support, and other supporting services. The Foundation received affiliated management fees for services provided to the Supported Organizations. These fees are allocated to the Supported Organizations based on direct allocation of specific services provided to the Supported Organizations for fundraising events and as an allocation of total operating expenses of the Foundation, excluding contribution expense. For the years ended June 30, 2022 and 2021, the Corporation incurred malpractice and liability insurance claims of approximately \$509,000 and \$507,000, respectively, which is paid by the Parent and then reimbursed by the Corporation.

During 2019, the Parent refinanced debt with a financial institution. Concurrent with the refinance, the Parent paid two of the Corporation's notes payable with financial institutions. The Corporation entered into two notes payable with the Parent. The first note payable due to Parent was issued in the original amount of \$1,307,846 maturing on January 31, 2029, with monthly installments of \$9,682 and an interest rate of 6.41%. The balance outstanding was \$1,188,903 and \$1,226,467 at June 30, 2022 and 2021, respectively. The second note payable due to Parent was issued in the original amount of \$2,441,502 used for capital expenditures. The note matures on January 31, 2029, with initial monthly installments of \$16,207 and an interest rate of 5.07%. This note was amended multiple times during 2022 and 2021 to increase the outstanding balance as well as the monthly installments. The monthly installments were increased to \$22,107 during 2022. The balance outstanding was \$2,971,649 and \$2,912,336 at June 30, 2022 and 2021, respectively.

Aggregate annual maturities of notes payable to related party as of June 30, 2022 is as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 155,266
2024	163,408
2025	173,223
2026	182,993
2027	193,322
2028 and later years	<u>3,292,340</u>
	<u>\$ 4,160,552</u>

CENTERSTONE OF INDIANA, INC.

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June 30, 2022 and 2021

The Foundation is a supporting organization to the affiliated entities. The Foundation has a net related party receivable as of June 30, 2022 and 2021. During the years ended June 30, 2022 and 2021, the Foundation contributed approximately \$2,191,000 and \$1,109,000, respectively, to supported entities. For the years ended June 30, 2022 and 2021, the Foundation received affiliated management fees of approximately \$1,050,000 and \$840,000, respectively, for services provided to its affiliates. This revenue is included within affiliated management fees within the consolidated statements of activities and changes in net assets.

The Corporation is a management agent and sponsor of six multi-family 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 fee revenue of approximately \$20,000 and \$22,000 was recorded during the years ended June 30, 2022 and 2021, respectively.

The Corporation contracts with Red Oak Industries to provide cleaning services and has recorded associated fees of approximately \$50,000 and \$19,000 for the years ended June 30, 2022 and 2021, respectively.

During 2019, Centerstone of Indiana, Inc. entered into an operating loan agreement with Centerstone Health Services. The loan is up to an amount of \$500,000 and bears interest at a fixed rate of 6.00%. During 2021, the loan exceeded the original borrowing base. During 2022, Centerstone of Indiana, Inc. entered in to a new operating loan agreement with Centerstone Health Services and agreed to increase the total loan balance up to \$3,200,000. The loan bears interest at a fixed rate of 6.00% and is due in May 2027 at which time principal and any unpaid interest is due. The balance outstanding at June 30, 2022 and 2021 was approximately \$2,075,000 and \$1,213,000, respectively. Centerstone of Indiana, Inc. also entered into a facility lease agreement with Centerstone Health Services which includes monthly interest payments of approximately \$2,100 and matures in November 2029. Centerstone of Indiana, Inc. entered into a professional services and provider lease agreement with Centerstone Health Services whereby Centerstone of Indiana, Inc. provides certain health care services for Centerstone Health Services and is reimbursed by Centerstone Health Services. All of the Corporation's intercompany accounts and transactions have been eliminated.

(19) Commitments and contingencies

Operating leases

The Corporation leases various non-cancelable operating leases for facilities and equipment. Rent expense was approximately \$2,586,000 and \$2,466,000 for the years ended June 30, 2022 and 2021, respectively. A summary of approximate future minimum payments under these leases as of June 30, 2022 is as follows:

2023	\$ 1,655,000
2024	1,287,000
2025	677,000
2026	<u>109,000</u>
Total minimum lease payments	<u>\$ 3,728,000</u>

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

It is expected that in the normal course of business, leases that expire will be renewed or replaced by other leases; thus, it is anticipated that future lease payments will not be less than the expense for 2022.

Monroe County constructed the Bloomington facility, which was completed in July 1982, and entered into a lease agreement with the Corporation for \$1.00 per year. The property reverts to the County if the Corporation ceases to use it for certain specified purposes. The fair market rental value of the facility space provided by the lease approximated \$1,058,000 and \$1,039,000 for the years ended June 30, 2022 and 2021, respectively, and is included in other revenue and facilities and equipment expense in the accompanying consolidated statements of activities and changes in net assets.

Insurance

Through the Parent, the Corporation maintains professional and general liability insurance to cover medical malpractice claims and insurance related to employee health benefit programs.

The professional and general liability insurance includes 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 clients. The State of Indiana puts a judgment cap of \$1,800,000 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 \$500,000 of every claim and the State will fund the remaining balance of each claim.

Effective April 12, 2021, the Parent established Homewood Insurance Company, Inc. as a pure captive insurance company. The Corporation is self-insured through Homewood Insurance Company, Inc. for professional, general and workers' compensation claims. The Corporation makes necessary contributions to Homewood Insurance Company, Inc. for claims made under the captive. For the years ended June 30, 2021 and 2022, the Corporation recognized expenses of approximately \$472,000 and \$247,000, respectively, for claims made.

The Corporation is self-insured for certain costs related to employee health benefit programs. Expenses resulting from claims experience are recorded as incurred including an estimate of claims incurred but not reported. The related expense for the years ended June 30, 2022 and 2021 approximated \$6,956,000 and \$7,436,000, respectively. The Corporation has purchased insurance, which limits its exposure on a per individual basis to \$300,000 and no annual aggregate. The estimate of claims incurred but not reported for employee health benefit programs are recorded as a liability by the Parent, with the appropriate expense allocated to the Corporation.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

Litigation

A contractor of the State of Indiana previously conducted certain audits related to documentation supporting claims billed under the MRO. The Corporation has engaged legal counsel and has filed a request for an administrative appeal for the audit findings. Management has included a related provision of approximately \$355,000 and \$359,000 as part of estimated third-party settlements on the accompanying consolidated statements of financial position as of June 30, 2022 and 2021, respectively.

The Corporation is involved in certain litigation arising in the ordinary course of business and has made provisions for any known estimable settlements. The Corporation is also involved in other litigation for which the outcome is unknown. After consultation with legal counsel, it is management's opinion that these matters will be resolved without material adverse effect on the Corporation's financial position, results of operations, and cash flows.

Guarantees

The Corporation is a guarantor, along with certain other affiliated entities of loans in the amount of \$29,000,000 including a \$15,000,000 taxable term loan that requires monthly principal and interest payments and bears interest at LIBOR plus the applicable margin for the taxable term loan (4.84% at June 30, 2022) and a \$14,000,000 tax-exempt term loan that requires monthly principal and interest payments and bears interest at LIBOR plus the applicable margin for the tax-exempt term loan (3.71% at June 30, 2022). The balance outstanding was approximately \$26,584,000 and \$27,462,000 as of June 30, 2022 and 2021, respectively. This loan is collateralized with certain buildings and real estate. The loan balance at June 30, 2022 includes collateralized interest on the tax-exempt term loan of approximately \$237,000. The loan matures January 31, 2029.

The Corporation is also a guarantor with certain other affiliated entities to a revolving promissory note issued to the Parent in the amount of \$5,000,000. The Parent had no borrowings outstanding on the line of credit as of June 30, 2022 and 2021. The line of credit is collateralized with buildings, real estate, and accounts receivable. The line of credit matures on January 31, 2027.

Should the Corporation be required to pay any portion of the total amount of the loans it has guaranteed, the Corporation could attempt to recover some or the entire amount from guarantee parties. The Corporation holds certain identified properties as collateral in respect of the guarantees.

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

Health care industry

The delivery of personal health care services entails an inherent risk of liability. Participants in the health care services industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant exposure and defense costs. The Corporation is insured with respect to medical malpractice risk on a claims-made basis. The Corporation also maintains insurance for general liability, director and officer liability and property. Certain policies are subject to deductibles. In addition to the insurance coverage provided, the Corporation indemnifies certain officers and directors for actions taken on behalf of the Corporation. Management is not aware of any claims against the Corporation which would have a material financial impact.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigation and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes that the Corporation is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

Health care reform

The health care industry is subject to changing political, regulatory, and other influences, along with various scientific and technological initiatives. In recent years, the U.S. Congress and certain state legislatures have passed a large number of laws and regulations intended to effect major change within the U.S. health care system, including the Affordable Care Act. The Affordable Care Act affects how health care services are covered, delivered and reimbursed through expanded health insurance coverage, reduced growth in Medicare program spending, reductions in Medicare and Medicaid Disproportionate Share Hospital payments, and the establishment of programs that tie reimbursement to quality and integration. However, there is uncertainty regarding the future of the Affordable Care Act. The law has been subject to legislative and regulatory changes and court challenges.

As currently structured, the Affordable Care Act expands coverage through a combination of private sector health insurance requirements, public program expansion and other reforms. Expansion of coverage through the private sector has been driven by requirements applicable to health insurers, employers, and individuals. Expansion in public program coverage has been driven primarily by expanding the categories of individuals eligible for Medicaid coverage and permitting individuals with relatively higher incomes to qualify. The State of Illinois has adopted the Medicaid expansion provisions, while number of states have opted out of the Medicaid expansion provisions, which they may do without losing federal funding.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

There is uncertainty regarding the ongoing effect of the Affordable Care Act due to efforts to change, repeal or replace the Affordable Care Act, and the development of agency guidance, among other factors. There is also uncertainty regarding the potential impact of other reform efforts at the federal and state levels. For example, some members of Congress have proposed measures that would expand government-sponsored coverage, including proposals to expand coverage of federally-funded insurance programs as an alternative to private insurance or establish a single-payor system (such reforms often referred to as “Medicare for All”), and some states are considering similar measures. Other initiatives and proposals, including those aimed at price transparency and out-of-network charges, may impact prices and the relationships between health care providers and insurers.

CENTERSTONE OF INDIANA, INC.

Consolidating Statement of Financial Position

June 30, 2022

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Independent Living Alternatives, Inc.	Supportive Housing, LLC	Kinser Flats, LP	Centerstone Health Services, Inc.	Eliminations	Total
Assets								
Current assets:								
Cash and cash equivalents	\$ 21,925,310	\$ 695,938	\$ 240,427	\$ 175,042	\$ 88,594	\$ 99,742	\$ -	\$ 23,225,053
Restricted cash	1,031,751	-	-	-	82,974	-	-	1,114,725
Accounts receivable	3,032,636	-	-	-	-	102,906	-	3,135,542
Other receivables	3,775,488	439	15,039	31,405	23,534	149,718	-	3,995,623
Unconditional promises to give, net	-	112,041	-	-	-	-	-	112,041
Prepaid expenses and other current assets	365,247	3,660	-	-	-	6,453	-	375,360
Total current assets	30,130,432	812,078	255,466	206,447	195,102	358,819	-	31,958,344
Property and equipment, net	17,261,994	-	131,443	6,558,735	10,060,723	22,566	-	34,035,461
Other assets	2,134,678	-	-	-	-	-	(2,074,692)	59,986
Beneficial interest	-	1,279,523	-	-	-	-	-	1,279,523
Assets whose use is limited	-	10,591,139	-	-	-	-	-	10,591,139
Total assets	\$ 49,527,104	\$ 12,682,740	\$ 386,909	\$ 6,765,182	\$ 10,255,825	\$ 381,385	\$ (2,074,692)	\$ 77,924,453
Liabilities and net assets (deficit)								
Current liabilities:								
Current portion of long-term debt	\$ 200,000	\$ -	\$ 26,703	\$ 499,083	\$ -	\$ -	\$ -	\$ 725,786
Current portion of notes payable to Parent	155,266	-	-	-	-	-	-	155,266
Accounts payable and accrued expenses	2,714,612	99,985	56,897	28,858	242,269	149,398	-	3,292,019
Estimated third-party settlements	602,844	-	-	-	-	-	-	602,844
Due to (from) affiliated entities	342,374	(171,765)	-	-	-	2,636,809	(2,074,692)	732,726
Accrued payroll, benefits and taxes	4,332,551	85,199	-	2,842	-	7,250	-	4,422,842
Total current liabilities	8,347,647	13,419	83,600	530,783	242,269	2,793,457	(2,074,692)	9,936,483
Long-term debt, excluding current portion, net of deferred financing costs	(4,426)	-	338,165	3,143,492	1,137,584	-	-	4,614,815
Notes payable to Parent, excluding current portion	4,005,286	-	-	-	-	-	-	4,005,286
Other long-term liabilities	-	-	-	400,000	-	-	-	400,000
Total liabilities	12,348,507	13,419	421,765	4,074,275	1,379,853	2,793,457	(2,074,692)	18,956,584
Net assets (deficit):								
Without donor restrictions:								
Centerstone of Indiana, Inc.	37,178,597	7,355,468	(34,856)	2,690,907	(6,291)	(2,412,072)	-	44,771,753
Noncontrolling interests in Kinser Flats, LP	-	-	-	-	8,882,263	-	-	8,882,263
Total net assets without donor restrictions	37,178,597	7,355,468	(34,856)	2,690,907	8,875,972	(2,412,072)	-	53,654,016
With donor restrictions	-	5,313,853	-	-	-	-	-	5,313,853
Total net assets (deficit)	37,178,597	12,669,321	(34,856)	2,690,907	8,875,972	(2,412,072)	-	58,967,869
Total liabilities and net assets	\$ 49,527,104	\$ 12,682,740	\$ 386,909	\$ 6,765,182	\$ 10,255,825	\$ 381,385	\$ (2,074,692)	\$ 77,924,453

See accompanying independent auditors' report.

CENTERSTONE OF INDIANA, INC.

Consolidating Statement of Activities and Changes in Net Assets

Year ended June 30, 2022

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Independent Living Alternatives, Inc.	Supportive Housing, LLC	Kinser Flats, LP	Centerstone Health Services, Inc.	Eliminations	Total
Revenue and other support:								
Net client service revenue	\$ 47,414,796	\$ -	\$ -	\$ (1,214)	\$ -	\$ 3,878,647	\$ -	\$ 51,292,229
Public support	35,608,403	-	-	886,832	-	325,732	-	36,820,967
Affiliated management fees	-	1,051,661	-	-	-	-	(324,054)	727,607
Other revenue	5,167,123	-	161,304	-	481,645	(86,162)	(2,662,339)	3,061,571
Total revenue and other support	88,190,322	1,051,661	161,304	885,618	481,645	4,118,217	(2,986,393)	91,902,374
Expenses:								
Salary and fringe benefits	58,617,806	666,432	-	37,310	101,553	2,863,755	(2,526,343)	59,760,513
Professional fees	2,415,396	122,948	-	-	50,140	351,319	-	2,939,803
Facilities and equipment	4,633,646	48,458	63,317	259,871	167,850	186,971	(115,999)	5,244,114
Depreciation and amortization	1,091,738	-	14,965	228,914	398,859	3,515	-	1,737,991
Travel and transportation	1,295,446	23,578	-	-	-	17,118	-	1,336,142
Supplies	1,217,415	9,851	-	-	-	1,678,640	-	2,905,906
Communications	825,948	4,694	-	-	-	3,804	-	834,446
Affiliated management fees	12,448,103	-	-	19,997	-	-	(344,051)	12,124,049
Interest	241,840	-	34,552	-	-	97,422	(97,172)	276,642
Miscellaneous	2,409,248	2,394,821	44,192	47,206	162,101	189,561	-	5,247,129
Total expenses	85,196,586	3,270,782	157,026	593,298	880,503	5,392,105	(3,083,565)	92,406,735
Operating income (loss)	2,993,736	(2,219,121)	4,278	292,320	(398,858)	(1,273,888)	97,172	(504,361)

See accompanying independent auditors' report.

CENTERSTONE OF INDIANA, INC.

Consolidating Statement of Activities and Changes in Net Assets

Year ended June 30, 2022

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Independent Living Alternatives, Inc.	Supportive Housing, LLC	Kinser Flats, LP	Centerstone Health Services, Inc.	Eliminations	Total
Nonoperating income (expenses):								
Contributions	\$ 503,168	\$ 2,880,815	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,383,983
Realized gain on investments	-	281,341	-	-	-	-	-	281,341
Unrealized loss on investments	-	(2,371,596)	-	-	-	-	-	(2,371,596)
Interest income, net	97,272	210,217	-	-	-	-	(97,172)	210,317
Loss on disposal of assets	(13,534)	-	-	-	-	-	-	(13,534)
Other	(101,768)	(416,459)	-	-	-	(28,425)	-	(546,652)
Total nonoperating income (expenses)	485,138	584,318	-	-	-	(28,425)	(97,172)	943,859
Excess of revenues over expenses (expenses over revenues)	3,478,874	(1,634,803)	4,278	292,320	(398,858)	(1,302,313)	-	439,498
Other changes in net assets without donor restrictions -								
Contributions to supported entities	2,454	(215,688)	-	-	-	-	-	(213,234)
Contributions from noncontrolling investor limited partners	-	-	-	-	7,944,521	-	-	7,944,521
Total other changes in net assets without donor restrictions	2,454	(215,688)	-	-	7,944,521	-	-	7,731,287
Change in net assets without donor restrictions	3,481,328	(1,850,491)	4,278	292,320	7,545,663	(1,302,313)	-	8,170,785
Change in net assets without donor restrictions attributable to noncontrolling interests	-	-	-	-	7,545,703	-	-	7,545,703
Change in net assets without donor restrictions attributable to Centerstone of Indiana, Inc.	3,481,328	(1,850,491)	4,278	292,320	(40)	(1,302,313)	-	625,082
Change in net assets with donor restrictions - contributions	-	100,000	-	-	-	-	-	100,000
Change in net assets	3,481,328	(1,750,491)	4,278	292,320	7,545,663	(1,302,313)	-	8,270,785
Net assets (deficit) at beginning of year	33,697,269	14,419,812	(39,134)	2,398,587	1,330,309	(1,109,759)	-	50,697,084
Net assets (deficit) at end of year	<u>\$ 37,178,597</u>	<u>\$ 12,669,321</u>	<u>\$ (34,856)</u>	<u>\$ 2,690,907</u>	<u>\$ 8,875,972</u>	<u>\$ (2,412,072)</u>	<u>\$ -</u>	<u>\$ 58,967,869</u>

See accompanying independent auditors' report.

CENTERSTONE OF INDIANA, INC.

Consolidating Statement of Financial Position

June 30, 2021

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Independent Living Alternatives, Inc.	Supportive Housing, LLC	Kinser Flats, LP	Centerstone Health Services, Inc.	Eliminations	Total
Assets								
Current assets:								
Cash and cash equivalents	\$ 17,284,906	\$ 474,830	\$ 231,124	\$ 165,723	\$ 110,540	\$ 63,922	\$ -	\$ 18,331,045
Restricted cash	1,006,243	-	-	-	-	-	-	1,006,243
Accounts receivable	3,160,671	-	-	-	-	273,695	-	3,434,366
Other receivables	5,362,303	-	7,172	12,261	-	278,065	(773,464)	4,886,337
Unconditional promises to give, net	-	185,572	-	-	-	-	-	185,572
Prepaid expenses and other current assets	846,264	5,878	-	-	-	-	-	852,142
Total current assets	27,660,387	666,280	238,296	177,984	110,540	615,682	(773,464)	28,695,705
Property and equipment, net	17,921,698	-	147,965	6,785,100	9,401,892	13,181	-	34,269,836
Other assets	1,272,986	-	-	-	-	-	(1,213,000)	59,986
Beneficial interest	-	1,536,183	-	-	-	-	-	1,536,183
Assets whose use is limited	-	12,367,419	-	-	-	-	-	12,367,419
Total assets	<u>\$ 46,855,071</u>	<u>\$ 14,569,882</u>	<u>\$ 386,261</u>	<u>\$ 6,963,084</u>	<u>\$ 9,512,432</u>	<u>\$ 628,863</u>	<u>\$ (1,986,464)</u>	<u>\$ 76,929,129</u>
Liabilities and net assets (deficit)								
Current liabilities:								
Current portion of long-term debt	\$ 200,000	\$ -	\$ 24,352	\$ 499,083	\$ -	\$ -	\$ -	\$ 723,435
Current portion of notes payable to Parent	140,820	-	-	-	-	-	-	140,820
Accounts payable and accrued expenses	2,218,370	23,209	38,843	26,358	304,026	518,478	(773,464)	2,355,820
Estimated third-party settlements	583,036	-	-	-	-	-	-	583,036
Due to affiliated entities	1,390,400	57,482	-	-	-	-	-	1,447,882
Accrued payroll, benefits and taxes	4,440,471	69,379	-	2,639	-	7,144	-	4,519,633
Total current liabilities	8,973,097	150,070	63,195	528,080	304,026	525,622	(773,464)	9,770,626
Long-term debt, excluding current portion, net of deferred financing costs	186,722	-	362,200	3,636,417	7,878,097	1,213,000	(1,213,000)	12,063,436
Notes payable to Parent, excluding current portion	3,997,983	-	-	-	-	-	-	3,997,983
Other long-term liabilities	-	-	-	400,000	-	-	-	400,000
Total liabilities	13,157,802	150,070	425,395	4,564,497	8,182,123	1,738,622	(1,986,464)	26,232,045
Net assets (deficit):								
Without donor restrictions:								
Centerstone of Indiana, Inc.	33,697,269	9,205,959	(39,134)	2,398,587	(6,251)	(1,109,759)	-	44,146,671
Noncontrolling interests in Kinser Flats, LP	-	-	-	-	1,336,560	-	-	1,336,560
Total net assets without donor restrictions	33,697,269	9,205,959	(39,134)	2,398,587	1,330,309	(1,109,759)	-	45,483,231
With donor restrictions	-	5,213,853	-	-	-	-	-	5,213,853
Total net assets (deficit)	33,697,269	14,419,812	(39,134)	2,398,587	1,330,309	(1,109,759)	-	50,697,084
Total liabilities and net assets	<u>\$ 46,855,071</u>	<u>\$ 14,569,882</u>	<u>\$ 386,261</u>	<u>\$ 6,963,084</u>	<u>\$ 9,512,432</u>	<u>\$ 628,863</u>	<u>\$ (1,986,464)</u>	<u>\$ 76,929,129</u>

See accompanying independent auditors' report.

CENTERSTONE OF INDIANA, INC.

Consolidating Statement of Activities and Changes in Net Assets

Year ended June 30, 2021

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Independent Living Alternatives, Inc.	Supportive Housing, LLC	Kinser Flats, LP	Centerstone Health Services, Inc.	Eliminations	Total
Revenue and other support:								
Net client service revenue	\$ 50,998,486	\$ -	\$ -	\$ -	\$ -	\$ 803,347	\$ -	\$ 51,801,833
Public support	33,029,879	-	-	940,261	-	579,152	(254,681)	34,294,611
Affiliated management fees	-	843,733	-	-	-	-	(280,118)	563,615
Other revenue	4,152,724	-	166,415	-	-	10,630	(1,507,114)	2,822,655
Net assets released from restrictions	-	-	-	-	-	-	-	-
Total revenue and other support	88,181,089	843,733	166,415	940,261	-	1,393,129	(2,041,913)	89,482,714
Expenses:								
Salary and fringe benefits	56,799,555	596,086	-	48,395	54,089	1,419,136	(1,255,129)	57,662,132
Professional fees	2,571,161	37,968	-	-	-	262,845	(240,493)	2,631,481
Facilities and equipment	4,250,855	63,473	43,291	198,107	1,070	59,736	(80,920)	4,535,612
Depreciation and amortization	1,207,283	-	15,069	228,914	30,487	1,190	-	1,482,943
Travel and transportation	860,182	4,215	-	-	-	6,358	(5,307)	865,448
Supplies	1,418,037	2,352	-	-	-	89,848	(87,588)	1,422,649
Communications	842,654	5,407	-	-	-	2,385	(2,385)	848,061
Affiliated management fees	11,353,771	-	-	22,466	-	-	(302,584)	11,073,653
Interest	213,198	-	36,712	-	-	50,000	(50,000)	249,910
Miscellaneous	2,599,995	1,264,967	38,677	91,518	15,774	59,141	(67,491)	4,002,581
Total expenses	82,116,691	1,974,468	133,749	589,400	101,420	1,950,639	(2,091,897)	84,774,470
Operating income (loss)	6,064,398	(1,130,735)	32,666	350,861	(101,420)	(557,510)	49,984	4,708,244

See accompanying independent auditors' report.

CENTERSTONE OF INDIANA, INC.

Consolidating Statement of Activities and Changes in Net Assets

Year ended June 30, 2021

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Independent Living Alternatives, Inc.	Supportive Housing, LLC	Kinser Flats, LP	Centerstone Health Services, Inc.	Eliminations	Total
Nonoperating income (expenses):								
Contributions	\$ 315,877	\$ 1,773,066	\$ -	\$ -	\$ 37,017	\$ -	\$ -	\$ 2,125,960
Realized gain on investments	-	1,233,718	-	-	-	-	-	1,233,718
Unrealized gain on investments	-	1,139,171	-	-	-	-	-	1,139,171
Interest income, net	50,549	159,434	-	-	-	-	(50,000)	159,983
Gain on disposal of assets	66,354	-	-	-	-	-	-	66,354
Other	(371,830)	89,288	-	-	-	-	16	(282,526)
Total nonoperating income (expenses)	60,950	4,394,677	-	-	37,017	-	(49,984)	4,442,660
Excess of revenues over expenses (expenses over revenues)	6,125,348	3,263,942	32,666	350,861	(64,403)	(557,510)	-	9,150,904
Other changes in net assets without donor restrictions -								
Contributions to supported entities	2,144	(210,604)	-	-	-	-	-	(208,460)
Change in net assets without donor restrictions	6,127,492	3,053,338	32,666	350,861	(64,403)	(557,510)	-	8,942,444
Change in net assets without donor restrictions attributable to noncontrolling interests	-	-	-	-	(64,397)	-	-	(64,397)
Change in net assets without donor restrictions attributable to Centerstone of Indiana, Inc.	6,127,492	3,053,338	32,666	350,861	(6)	(557,510)	-	9,006,841
Change in net assets with donor restrictions - contributions	-	49,235	-	-	-	-	-	49,235
Change in net assets	6,127,492	3,102,573	32,666	350,861	(64,403)	(557,510)	-	8,991,679
Net assets (deficit) at beginning of year	27,569,777	11,317,239	(71,800)	2,047,726	1,394,712	(552,249)	-	41,705,405
Net assets (deficit) at end of year	\$ 33,697,269	\$ 14,419,812	\$ (39,134)	\$ 2,398,587	\$ 1,330,309	\$ (1,109,759)	\$ -	\$ 50,697,084

See accompanying independent auditors' report.

CENTERSTONE OF INDIANA, INC.

**Schedule of Expenditures of State and Local Awards
Year ended June 30, 2022**

Grantor	Expenditures
State	
Indiana Division of Mental Health and Addiction	\$ 8,799,537
Indiana Department of Education	424,576
Indiana Family & Social Services	71,250
Total state awards	9,295,363
Local	
Anderson County Funds	80,000
Bartholomew County Funds	1,244,043
Brown County Funds	173,840
Clark County Funds	105,000
City of Bloomington Funds	329,050
Decatur County Funds	221,472
Fayette County Funds	181,350
Jackson County Funds	445,502
Jefferson County Funds	117,333
Jennings County Funds	163,525
Lawrence County Funds	256,911
Marion County Funds	142,307
Monroe County Funds	799,221
Morgan County Funds	440,470
New Albany Floyd Funds	112,200
New Castle Schools Funds	130,000
Owen County Funds	97,899
Richmond Community Schools Funds	181,000
Rush County Funds	170,552
South Harrison School Corporation Funds	153,419
Randolph County Funds	173,099
Union County Funds	49,819
Wayne County Funds	501,066
Indiana Health Funds	118,560
Indiana University Funds	525,000
Greater Clark Schools Funds	207,360
Other	372,398
Total local awards	7,492,396
	\$ 16,787,759

Note - The accompanying schedule of expenditures of state and local awards for the year ended June 30, 2022, includes the state award activity of the Corporation on the accrual basis of accounting. The basic financial statement classifications may include other financial activity for reporting purposes. Therefore, some of the amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements. The schedule of expenditures of federal awards for the Corporation for the year ended June 30, 2022 is included in the Consolidated Single Audit of Centerstone of America, Inc.

See accompanying independent auditors' report.