



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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April 4, 2018

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

We have reviewed the report prepared by Centerstone of Indiana, Inc. and opined upon by Blue & Co., LLC, Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. Per the *Report of Independent Auditors* the financial statements included in the report present fairly the financial condition of Centerstone of Indiana, Inc. as of June 30, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Blue & Co., LLC prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

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

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner



CENTERSTONE

CENTERSTONE OF INDIANA, INC.

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2016 AND 2015

CPAs / ADVISORS



CENTERSTONE OF INDIANA, INC.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Centerstone of America, Inc.
Nashville, Tennessee

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Centerstone of Indiana, Inc. and its subsidiaries (the Center), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We 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 included in the consolidated statements, whose statements reflect total assets of approximately \$8,658,000 and \$8,887,000 as of June 30, 2016 and 2015, and total revenues of approximately \$987,000 and \$996,000 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. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General in the United States and Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Board of Directors
Centerstone of America, Inc.
Nashville, Tennessee

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As explained in Note 1 to the consolidated financial statements, the Center is part of an affiliated group of entities. The Center is included in the reporting entity, Centerstone of America, and these consolidated financial statements include only the financial position, changes in net assets and cash flows of the Center. Our opinion is not modified with respect to this matter.

Board of Directors
Centerstone of America, Inc.
Nashville, Tennessee

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating information on pages 34 through 39 is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is also not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it relates to the financial statements audited by other auditors is based on the reports of the other auditors, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
November 29, 2016

CENTERSTONE OF INDIANA, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2016 AND 2015

	ASSETS	
	2016	2015
Current assets		
Cash and cash equivalents	\$ 7,239,298	\$ 13,381,620
Accounts receivable, net	4,387,730	1,594,892
Other receivables	4,333,093	4,011,794
Due from affiliated entities	4,093,859	2,998,879
Unconditional promises to give, net	225,280	372,818
Prepaid expenses and other current assets	154,778	143,285
Total current assets	20,434,038	22,503,288
Property and equipment, net	24,223,026	25,678,212
Other assets	88,184	58,643
Unconditional promises to give, net	81,840	207,572
Beneficial interest	1,230,716	1,324,448
Assets whose use is limited	8,217,164	8,454,979
Total assets	\$ 54,274,968	\$ 58,227,142
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long term debt	\$ 950,248	\$ 945,638
Accounts payable and accrued expenses	765,280	876,391
Estimated third party settlements	1,009,193	1,518,845
Due to affiliated entities	3,061	1,104,935
Accrued payroll, benefits and taxes	4,250,806	4,200,099
Total current liabilities	6,978,588	8,645,908
Long term debt		
Revenue bonds, net of current portion	2,384,494	2,806,974
Other long term debt, net of current portion	6,950,632	7,477,337
Total long term debt	9,335,126	10,284,311
Other liabilities	401,000	401,000
Agency liabilities	35,953	255,286
Total liabilities	16,750,667	19,586,505
Total net assets		
Unrestricted	29,699,319	31,240,113
Temporarily restricted	2,179,875	1,755,417
Permanently restricted	5,645,107	5,645,107
Total net assets	37,524,301	38,640,637
Total liabilities and net assets	\$ 54,274,968	\$ 58,227,142

See accompanying notes to consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Revenue, gains and other support		
Net client service revenue	\$ 30,999,155	\$ 29,800,489
Less provision for bad debts	1,839,506	1,033,658
Net client service revenue less provision for bad debts	29,159,649	28,766,831
Public support	24,325,517	23,995,637
Other	4,669,251	4,474,918
Net assets released from restrictions	1,113,491	622,291
Total revenue and other support	59,267,908	57,859,677
Expenses		
Salary and fringe benefits	39,258,320	35,664,077
Telephone	846,373	804,564
Travel	2,220,081	2,038,902
Drugs and supplies	1,014,747	973,077
Contracted services	1,438,675	1,312,109
Purchased services	516,209	399,727
Utilities	700,029	756,732
Repairs and maintenance	773,078	809,270
Affiliated management fees	7,315,558	7,330,058
Rents and leases	2,016,831	1,843,608
Depreciation and amortization	1,267,388	1,313,870
Insurance	398,470	429,634
Interest	138,400	190,580
Miscellaneous	1,532,964	733,950
Total expenses	59,437,123	54,600,158
Operating gain (loss)	\$ (169,215)	\$ 3,259,519

See accompanying notes to consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Nonoperating revenues (expenses)		
Foundation related expenses	\$ (723,406)	\$ (437,386)
Contributions and pledges	484,827	565,493
Other	266,767	185,963
Interest and dividends	133,985	130,357
Realized gain (loss) on investments	(143,257)	1,031,741
Unrealized loss on investments	(209,234)	(967,927)
Total nonoperating revenues and expenses	<u>(190,318)</u>	<u>508,241</u>
Excess of revenue over (under) expenses	(359,533)	3,767,760
Other changes in unrestricted net assets		
Contributions to supported entities	(1,416,788)	(1,393,469)
Net assets released from restriction	303,297	771,178
Equity transfer with Centerstone of America	(67,770)	-0-
Change in unrestricted net assets	<u>(1,540,794)</u>	<u>3,145,469</u>
Temporarily restricted net assets		
Contributions and pledges	1,934,978	1,760,253
Net assets released from restrictions	(1,416,788)	(1,393,469)
Equity transfer with Centerstone of Illinois	-0-	52,570
Change in beneficial interest	(93,732)	(55,368)
Change in temporarily restricted net assets	<u>424,458</u>	<u>363,986</u>
Change in net assets	(1,116,336)	3,509,455
Net assets, beginning of year	<u>38,640,637</u>	<u>35,131,182</u>
Net assets, end of year	<u><u>\$ 37,524,301</u></u>	<u><u>\$ 38,640,637</u></u>

See accompanying notes to consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Operating activities		
Change in net assets	\$ (1,116,336)	\$ 3,509,455
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Gain on disposal of assets	(60,005)	(4,000)
Public support - debt forgiveness	(499,083)	(499,083)
Depreciation and amortization	1,267,388	1,313,870
Unrealized gain on derivative	-0-	(34,303)
Bad debt	1,839,506	1,033,658
Unrealized loss on investments	209,234	967,927
Realized (gain) loss on sale of investments	143,257	(1,031,741)
Change in beneficial Interest	93,732	55,368
Provisions for uncollectible and discount to net present value on promises to give	40,889	(14,213)
Restricted contributions and pledges	(1,934,978)	(1,760,253)
Changes in operating assets and liabilities		
Accounts receivable, net	(4,632,344)	(526,820)
Due to/from affiliates	(964,227)	(1,782,461)
Other receivables	(321,299)	(825,259)
Unconditional promises to give, net	266,017	379,490
Prepaid expenses and other current assets	(11,493)	168
Accounts payable and accrued expenses	(111,111)	(212,816)
Estimated third party settlements	(509,652)	271,028
Accrued payroll, benefits and taxes	50,707	745,200
Other liabilities	-0-	(16,000)
Net cash flows from operating activities	(6,249,798)	1,569,215
Investing activities		
Purchase of property and equipment	(1,111,403)	(1,315,614)
Proceeds from the sale of property and equipment	131,172	4,000
Proceeds from the sale or maturity of investments	2,852,977	5,371,769
Purchases of investments	(2,967,653)	(5,376,190)
Change in agency liabilities	(219,333)	13,068
Net cash flows from investing activities	(1,314,240)	(1,302,967)
Financing activities		
Restricted contributions and pledges	1,934,978	1,760,253
Proceeds on long term debt	-0-	1,625,000
Principal payments on long term debt	(445,492)	(1,882,214)
Equity transfer with Centerstone of America	(67,770)	-0-
Net cash flows from financing activities	1,421,716	1,503,039
Net change in cash and cash equivalents	(6,142,322)	1,769,287
Cash and cash equivalents, beginning of year	13,381,620	11,612,333
Cash and cash equivalents, end of year	\$ 7,239,298	\$ 13,381,620
Supplemental cash flows information		
Cash paid for interest	\$ 138,400	\$ 190,580
Noncash financing activities		
Indiana Housing and Community Development Authority debt forgiveness	\$ 499,083	\$ 499,083
Noncash investing activities		
Property and equipment included in accounts payable	\$ -0-	\$ 2,000
Net property transfers to/from affiliated entities	\$ 1,232,627	\$ -0-

See accompanying notes to consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Principles of Consolidation

The consolidated financial statements include the accounts of Centerstone of Indiana, Inc., Centerstone Foundation, Inc. (the Foundation), Johnson Nichols, Inc., Independent Living Alternatives, Inc. (Cumberland), and Centerstone Supportive Housing, LLC d/b/a Redwood Terrace (Supportive Housing).

The Center 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 Foundation received an equity transfer from Centerstone Endowment Trust, an affiliate presented within Centerstone of Tennessee, Inc., in the form of permanently restricted, temporarily restricted, and unrestricted net assets during 2013. In addition, the Foundation received oversight and agency duties from Centerstone of Illinois, Inc. during 2015.

Johnson Nichols Health Clinic, Inc. (Johnson Nichols, Inc.) is a health clinic located in Indiana in which Centerstone of Indiana, Inc. pays the salaries generated at Johnson Nichols, Inc. and is reimbursed accordingly. During 2016, the Center became sole member of Johnson Nichols, Inc. as its communities served aligned with the Center's operations. Previously, Johnson Nichols was reported within Centerstone of America, Inc. As of June 30, 2015, Johnson Nichols, Inc. had assets, liabilities, and net assets of approximately \$88,000, \$156,000, and \$(68,000), respectively. A related equity transfer of approximately \$(68,000) was recorded within the year ending June 30, 2016. All material intercompany accounts and transactions have been eliminated.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Supportive Housing was incorporated in the State of Indiana and may conduct any and all lawful business and activities as long as they are consistent with the charitable purposes or status of the sole member, Centerstone of Indiana, Inc. Supportive Housing was formed to develop, own and operate a 60-unit affordable housing rental project (Project) and participates in the 1602 Tax Credit Exchange Program mortgage administered through the Indiana Housing Community Development Authority.

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).

Cumberland and Supporting Housing are consolidated as the Center is the sole corporate member.

All material intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Significant estimates sensitive to change in the near term include the allowance on accounts receivable, contractual allowances, estimated third party settlements, and self-insurance for employee health claims incurred but not reported.

Basis of Presentation

Financial statement presentation follows the recommendations outlined in the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) for Non-Profit Entities.

Net Asset Classifications

A summary of the net asset categories included in the accompanying consolidated financial statements is as follows:

Unrestricted Net Assets

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

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Temporarily Restricted Net Assets

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

Permanently Restricted Net Assets

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

Affiliated Entities and Related Parties

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

The Parent is the holding company and sole corporate member of the Center. Centerstone of America has the following additional entities under common control: Centerstone Military Services, Inc., Centerstone of Tennessee Inc., Centerstone of Illinois, Inc., Centerstone Research Institute, Inc. and Centerstone of Florida, Inc.

Centerstone Military Services, Inc. provides counseling services to returning members of the armed forces. Centerstone Military Services, Inc. is a Sister Center of the Center.

Centerstone of Tennessee, Inc. is a community mental health center with locations in various counties in Tennessee. Included within Centerstone of Tennessee, Inc. are its subsidiaries which include Advantage Behavioral Health and Cumberland Holding Corp. Centerstone of Tennessee, Inc. is a Sister Center of the Center. Advantage Behavioral Health is a not-for-profit organization that provides administrative services and support to behavioral health organizations.

Centerstone of Illinois, Inc. is a not-for-profit community mental health center with locations in various counties in Illinois. Included within Centerstone of Illinois, Inc. are its subsidiaries, WellSpring Resources, Franklin-Williamson Properties, Inc. and F-W Residential Properties, Inc. Centerstone of Illinois, Inc. is a Sister Center of the Center. WellSpring Resources is a not-for-profit community mental health center with locations in Illinois. Franklin-Williamson Properties, Inc. and F-W Residential Properties, Inc. are organizations designed to lease and manage properties for Centerstone of Illinois, Inc.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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

Centerstone of Florida, Inc. is a not-for-profit community mental health center with locations in various counties in Florida.

The Center is a management agent and sponsor of six multifamily residential apartments and two supervised living group homes for the mentally ill. The associated not-for-profit entities are related parties to the Center and are not consolidated within the accompanying financial statements.

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

Cash and Cash Equivalents

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

Assets Whose Use Is Limited

Assets whose use is limited consists of funds that have been designated by the board to be used to acquire buildings, property and equipment, funds held by the trustee for debt service, and donor restricted funds.

The fair value of the related assets whose use is limited set aside for debt service as of June 30, 2016 and 2015 was approximately \$201,000 and \$214,000, respectively. The funds consist of cash, common stocks, mutual funds and exchange traded funds.

During fiscal year 2013, the Foundation received trust assets from Centerstone Endowment Trust through an equity transfer, to provide oversight functions after receiving approval from the Tennessee Attorney General. The fair value of the related assets whose use is limited as of June 30, 2016 and 2015 was approximately \$8,016,000 and \$8,241,000, respectively.

The underlying net assets consist of a portion of unrestricted net assets, which are board designated for future capital projects, temporarily restricted net assets, and permanently restricted net assets.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Unconditional Promises to Give

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

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

Donor Support

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

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

Other Receivables

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

Investments and Investment Income

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

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

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Performance Indicator and Operating Indicator

The consolidated statements of activities and changes in net assets include a performance indicator, excess of revenue over (under) expenses. Changes in unrestricted net assets which would be excluded from the performance indicator, consistent with industry practice, include net assets released from restriction for long-lived assets, contributions to supported entities and equity transfers. The consolidated statements of activities and changes in net assets also include an operating indicator, operating gain (loss). Certain nonoperating items are excluded from the operating indicator including Centerstone Foundation, Inc. expenses, contributions and pledges, other income, interest and dividends, investment income, realized gain (loss) on investments, and unrealized gain (loss) on investments.

Advertising Costs

The Center uses advertising to promote its programs and services among the clients it serves. The advertising costs are expensed as incurred. Advertising costs totaled approximately \$139,000 and \$141,000 for June 30, 2016 and 2015, respectively, and recognized as miscellaneous expense within the consolidated statements of activities and changes in net assets.

Property and Equipment

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

	<u>Years</u>
Furniture and equipment	3-10
Buildings	18-30
Building and land improvements	5-20

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

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Net Client Service Revenue and Accounts Receivable

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

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

Given the current regulatory and reimbursement environment, there can be no assurances that adequate reimbursement levels will continue to be available for the services provided by the Center. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on the Center's liquidity, financial condition, results of operations, and cash flows.

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Allowance for Doubtful Accounts

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

For the years ended June 30, 2016 and 2015, the Center estimates an allowance for doubtful accounts based on an evaluation of historical adjustments and losses, current economic conditions and factors unique to payor situations. The allowance methodology was generally consistent between years. The Center's allowance for doubtful accounts as of June 30, 2016 and 2015 were approximately \$1,327,000 and \$1,586,000, respectively. This decrease of approximately \$259,000 relates to a change in the charging structure made during the current year, corresponding to the change in billing systems.

Charity Care

The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The charity care amounts are not reported as net client service revenue as the Center does not pursue collection. Amounts for foregone charges related to charity care were approximately \$1,980,000 and \$2,150,000 as of June 30, 2016 and 2015, respectively.

Of the Center's total operating expenses reported, an estimated \$1,340,000 and \$2,140,000 arose from providing services to charity patients during the years ended June 30, 2016 and 2015, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Center's total expenses divided by gross patient service revenue.

Medicaid Funds Recovery

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

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Public Support

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

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

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

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

Contributions to Supported Entities

The Foundation sends contribution support to affiliated entities to help further the mission of those organizations. Amounts will be eliminated upon consolidation of these financial statements.

Estimated Third Party Settlements

Estimated third party liabilities for Medicare, Medicaid, Medicaid Rehabilitation Option (MRO), grants and other programs reflect the difference between interim reimbursement and reimbursement as determined by contractual agreements and third-party audits. Based upon payments received from Medicare, Medicaid, MRO, grants and other programs, the Center has estimated and recorded an approximate liability of \$1,009,000 and \$1,519,000 as of June 30, 2016 and 2015, respectively.

Agency Liabilities

The Foundation serves as an agent, primarily on behalf of Centerstone of Tennessee, Inc., Centerstone Research Institute, Inc. and Centerstone of Illinois, Inc. for certain donor restricted and board designated funds which were transferred during 2011 and 2015. The Foundation transfers assets to these related parties in accordance with the stipulated donor restrictions and board designations.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Other Liabilities

Other liabilities relate to deferred revenue from project development fees which are being recognized as earned based on an approved contract with the Indiana Housing Community Development Authority.

Federal and State Income Taxes

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

Supportive Housing is organized as a limited liability company, whereby net taxable income is taxed directly to the members and not Supportive Housing. Accordingly, no current or deferred provision for income taxes was made for 2016 and 2015. As such, these organizations are generally exempt from income taxes. However, the Center and its subsidiaries are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Center and recognize a tax liability if 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 by the Center and has concluded that as of June 30, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Center and its subsidiaries filed the federal and state income tax returns for periods through June 30, 2015. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Reclassifications

Certain information from 2015 has been reclassified to conform to the current year presentation. There is no effect on the consolidated change in net assets as a result of these reclassifications.

Subsequent Events

The Center evaluated events or transactions occurring subsequent to the consolidated statement of financial position date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is November 29, 2016.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Recently Issued Accounting Standards

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this new guidance is that "an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services". On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date for all entities by one year. These new standards, which the Center is not required to adopt until its fiscal year ending June 30, 2019, deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Topic 835)*, was issued to simplify the presentation of debt issuance costs. After the implementation of this ASU, debt issuance costs will be required to be presented as a direct deduction of the debt liability with the related amortization reported as interest expense. This treatment is similar to that of a bond discount or bond premium. This ASU is effective for the Center's year ending June 30, 2017.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which the Center is not required to adopt until its fiscal year ending June 30, 2020, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position.

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which the Center is not required to adopt until its year ending June 30, 2019, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU completes the first phase of a two phase project to amend not-for-profit financial reporting requirements.

The Center is presently evaluating the effects that these ASUs will have on its future financial statements, including related disclosures.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

2. AFFILIATED ENTITIES AND RELATED PARTY TRANSACTIONS

The Center entered into certain working capital, administrative and general transactions with its Parent and Sister Centers as are disclosed in Note 1. The Center has recorded a net related party receivable of approximately \$4,094,000 and \$2,999,000 as of June 30, 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015, the Center incurred affiliated management fees of approximately \$7,316,000 and \$7,330,000, respectively, for services provided by its Parent. For the years ended June 30, 2016 and 2015, the Center incurred malpractice and liability insurance coverage of approximately \$377,000 and \$403,000, respectively, which is paid by the Parent and then reimbursed by the Center.

The Foundation is a supporting organization to the affiliated entities. The associated balance in the related agency liability as of June 30, 2016 and 2015 is approximately \$36,000 and \$255,000, respectively. The Foundation has a related party payable in the amount of approximately \$3,000 and \$1,105,000 as of June 30, 2016 and 2015, respectively. During 2016 and 2015, the Foundation contributed approximately \$1,803,000 and \$1,393,000, respectively, to supported entities. For the years ended June 30, 2016 and 2015, the Foundation received affiliated management fees in the amounts of approximately \$100,000 and \$43,000, respectively, for services provided to its affiliates. This revenue is included within other nonoperating revenue and expenses within the consolidated statement of activities and changes in net assets.

The Center is a management agent and sponsor of six multifamily residential apartments and two supervised living group homes for the mentally ill. Each of these eight communities is a separate not-for-profit center. Management revenue of approximately \$26,000 and \$42,000 was recorded during June 30, 2016 and 2015, respectively.

The Center contracts with Red Oak Industries to provide cleaning services and has recorded associated fees in the approximate amount of \$412,000 and \$415,000 during June 30, 2016 and 2015, respectively. The Center has recorded a related, immaterial receivable as of June 30, 2016 and 2015, respectively, which is included in other receivables in the accompanying consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

3. BENEFICIAL INTEREST

During the fiscal year ending June 30, 2005, Centerstone of Tennessee, Inc. (Tennessee) transferred \$1,000,000 to the Community Foundation of Middle Tennessee (Community Foundation) to establish an investment in an Agency Endowment Fund that specifies Tennessee as the beneficiary. On July 1, 2012, Tennessee transferred the Agency Endowment Fund to Centerstone Foundation, Inc. for additional oversight function. Tennessee remains the trustee of the beneficial interest in the Community Foundation of Middle Tennessee subsequent to the transfer. The intended use of the Agency Endowment Fund is to support Tennessee's mission of serving the needy. Variance power has been granted to the Community Foundation to make distributions from the fund in accordance with the Community Foundation's Articles of Incorporation and in accordance with Tennessee's expressed intent. Tennessee has the right and responsibility to recommend distributions of principal and income, but those recommendations are advisory in nature. The beneficial interest is reported at fair value for the year ended June 30, 2016 and 2015.

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

	2016	2015
Beneficial interest in Community Foundation of Middle Tennessee, beginning of year	\$ 1,324,448	\$ 1,379,816
Investment expenses	(5,073)	(5,171)
Investment gain (loss)	(23,259)	18,503
Grants paid out	(65,400)	(68,700)
Beneficial interest in Community Foundation of Middle Tennessee, end of year	<u>\$ 1,230,716</u>	<u>\$ 1,324,448</u>

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

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

4. ASSETS WHOSE USE IS LIMITED

The composition of assets limited as to use at June 30, 2016 and 2015 is set forth in the following table. Investments are stated at fair value.

	2016	2015
Cash	\$ 1,368,487	\$ 158,483
Common stocks	1,357,726	1,337,660
Exchange traded funds	1,451,853	1,214,652
Mutual funds	4,039,098	5,744,184
	<u>\$ 8,217,164</u>	<u>\$ 8,454,979</u>

Investment income included on the consolidated statements of activities and changes in net assets consists of the following for 2016 and 2015:

	2016	2015
Interest and dividends	\$ 133,985	\$ 130,357
Realized gain (loss) on investments	(143,257)	1,031,741
Unrealized loss on investments	(209,234)	(967,927)
	<u>\$ (218,506)</u>	<u>\$ 194,171</u>

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

- *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.
- *Exchange traded funds*: Valued at the daily closing price as reported by the fund on an active market on which the exchange-traded funds are traded. Exchange-traded funds are generally valued at their net asset value (NAV), although shares may trade at a premium or discount to the NAV depending on the liquidity of the underlying securities, market volatility, and other factors.
- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Center are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Center are deemed to be actively traded.
- *Money market mutual funds*: Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV), however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund
- *Beneficial interest in outside trust*: Valued at fair value as reported by the trustee, which represents the Foundation's *pro rata* interest in the net assets of the trust, substantially all of which are valued on a mark-to-market basis.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement. Assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and 2015 are as follows:

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Assets whose use is limited				
Common stocks				
Energy	\$ 88,766	\$ 88,766	\$ -0-	\$ -0-
Industry	167,708	167,708	-0-	-0-
Consumer discretionary	223,496	223,496	-0-	-0-
Consumer staples	209,897	209,897	-0-	-0-
Healthcare	141,476	141,476	-0-	-0-
Financials	57,916	57,916	-0-	-0-
Information technology	198,684	198,684	-0-	-0-
Telecommunication	51,490	51,490	-0-	-0-
Foreign common	218,293	218,293	-0-	-0-
Exchange traded funds				
Bond	283,710	283,710	-0-	-0-
Growth	215,234	215,234	-0-	-0-
Index	505,200	505,200	-0-	-0-
Value	447,709	447,709	-0-	-0-
Mutual funds				
Growth	1,509,263	1,509,263	-0-	-0-
Value	750,174	750,174	-0-	-0-
International	49,028	49,028	-0-	-0-
Real estate investment trusts	426,901	426,901	-0-	-0-
Fixed income	1,303,732	1,303,732	-0-	-0-
	<u>6,848,677</u>	<u>\$ 6,848,677</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Cash	1,368,487			
	<u>\$ 8,217,164</u>			
Beneficial interest - funds held by Community Foundation	<u>\$ 1,230,716</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,230,716</u>

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

	June 30, 2015			
	Total	Level 1	Level 2	Level 3
Assets whose use is limited				
Common stocks				
Energy	\$ 104,118	\$ 104,118	\$ -0-	\$ -0-
Industry	163,272	163,272	-0-	-0-
Consumer discretionary	194,719	194,719	-0-	-0-
Consumer staples	146,375	146,375	-0-	-0-
Healthcare	181,669	181,669	-0-	-0-
Financials	88,719	88,719	-0-	-0-
Information technology	172,500	172,500	-0-	-0-
Telecommunication	57,937	57,937	-0-	-0-
Foreign common	228,351	228,351	-0-	-0-
Exchange traded funds				
Bond	280,665	280,665	-0-	-0-
Growth	222,755	222,755	-0-	-0-
Index	497,328	497,328	-0-	-0-
Value	213,904	213,904	-0-	-0-
Mutual funds				
Blend	1,167,085	1,167,085	-0-	-0-
Growth	1,598,452	1,598,452	-0-	-0-
Value	740,503	740,503	-0-	-0-
International	432,979	432,979	-0-	-0-
Real estate investment trusts	40,117	40,117	-0-	-0-
Fixed income	1,657,010	1,657,010	-0-	-0-
Mutual funds - money market	108,038	-0-	108,038	-0-
	<u>8,296,496</u>	<u>\$ 8,188,458</u>	<u>\$ 108,038</u>	<u>\$ -0-</u>
Cash	<u>158,483</u>			
	<u>\$ 8,454,979</u>			
Beneficial interest - funds held by Community Foundation	<u>\$ 1,324,448</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,324,448</u>

The Center's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no transfers during 2016 or 2015.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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

- Cash and cash equivalents, accounts receivable, other receivables, accounts payable, estimated third party settlements and accrued expenses: The carrying amount reported in the consolidated statements of financial position for cash and cash equivalents, accounts receivable, other receivables, accounts payable, accrued expenses and estimated third party settlements approximate fair value based on short-term maturity.
- Long-term debt: The fair value of the Center's variable rate debt approximates its carrying value based on the variable nature of the interest rate. The fair value of its fixed rate debt approximates carrying value based on the credit ratings for similar entities for loans with similar features. It is not practical to estimate the fair value of the loans that bear no interest that are forgiven over time as the ultimate repayment is unlikely as long as the underlying property is used for the intended purpose.

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

6. PROPERTY AND EQUIPMENT

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

	2016	2015
Land	\$ 2,142,748	\$ 2,142,748
Buildings and improvements	33,443,652	33,497,968
Furnishings and equipment	3,339,456	3,299,595
Construction in progress	379,632	721,354
	<u>39,305,488</u>	<u>39,661,665</u>
Accumulated depreciation and amortization	(15,082,462)	(13,983,453)
	<u>\$ 24,223,026</u>	<u>\$ 25,678,212</u>

During 2016, approximately \$1,230,000 of property and equipment was transferred to affiliated entities.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

7. PROMISES TO GIVE

Promises to give consist of pledges restricted to the support of the Centerstone Foundation, Inc., which supports all the organizations within Centerstone of America, Inc. Promises to give are discounted to the present value of the estimated future cash flows, using a rate of 2.16% as of June 30, 2016 and 2015, and also include an allowance for estimated uncollectable pledges.

	2016	2015
Promises receivable in less than one year	\$ 479,486	\$ 561,281
Promises receivable in one to five years	245,805	396,390
Less: net present value discount	(19,715)	(29,892)
Less: allowance for uncollectible pledges	(398,456)	(347,389)
	\$ 307,120	\$ 580,390

8. LONG TERM DEBT

Long term debt consists of the following with specified instruments using the London Interbank Offered Rate (LIBOR):

	2016	2015
Indiana Department Finance Authority Series (IDFA) 2002 variable rate demand economic development revenue bonds, variable interest rate of 1 month LIBOR, .47% at June 30, 2016, \$200,000 redeemed on December 1st each year, final payment due December 2022, collateralized accounts receivable, and property and equipment with a net book value of approximately \$1,705,000.	\$ 1,400,000	\$ 1,600,000
Mortgage loan with U.S. Department of Housing and Urban Development. Monthly installments of principal and interest are \$5,000 with a maturity date of July 1, 2031. Interest is being charged at 9.25%. Collateralized by certain real estate with a net book value of approximately \$240,000.	479,674	495,895
Note payable, 7% fixed interest rate, payable in monthly installments of \$3,076 due September 2032, collateralized by real estate with a net book value of approximately \$1,185,000.	395,703	406,074
Mortgage payable to Indiana Housing & Community Development Authority, 0% interest, due 2026, forgiven over a 15 year period, collateralized by real estate with a net book value of approximately \$7,920,000.	6,639,916	7,138,999
Note payable, variable interest rate of one month LIBOR plus 1.85%, 2.3% as of June 30, 2016, payable in monthly principal and interest payments of \$20,810 through April 9, 2022, collateralized by certain real estate with a net book value of approximately \$2,285,000 and bank accounts with a balance of \$200,000.	1,370,081	1,588,981
	10,285,374	11,229,949
Current portion	(950,248)	(945,638)
Total long term debt	\$ 9,335,126	\$ 10,284,311

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

The 2002 bonds are secured by a letter of credit. Under the terms of the letter of credit and reimbursement agreement, the Center is required to maintain certain financial covenants. In the event of a failed remarketing, the letter of credit is due in 367 days. The letter of credit has a maturity date of December 15, 2019.

The note payable is secured by real estate and was used to secure payment of the 2001 bonds that were called during 2015. This note is payable in monthly principal and interest payments through April 9, 2022.

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

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

2017	\$	950,248
2018		957,275
2019		964,606
2020		972,321
2021		980,263
Thereafter		5,460,661
	\$	<u>10,285,374</u>

The Center is required to maintain certain financial ratios and comply with various other restrictive covenants. As of June 30, 2016, the Center was not in compliance with the certain financial ratios. The Center obtained a waiver from the financial institution regarding this noncompliance.

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
Dede Wallace Campus	\$ 435,377	\$ 475,707
Capital Campaign for Research	1,590,260	1,050,186
Centerstone Military Services		
Executive Director Position	154,238	229,524
	<u>\$ 2,179,875</u>	<u>\$ 1,755,417</u>

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

10. PERMANENTLY RESTRICTED NET ASSETS

The Center's permanently restricted net assets were comprised of the following as of June 30, 2016 and 2015:

Permanent Endowments	\$	4,645,107
Beneficial Interest in Community Foundation of Middle Tennessee		1,000,000
	\$	<u>5,645,107</u>

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

11. ENDOWMENT FUNDS

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

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

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

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

The endowment net assets composition by type of fund as of June 30, 2016 and 2015:

Permanently restricted net assets		
Donor-restricted endowment funds	\$	4,645,107
Beneficial Interest		1,000,000
Total endowment funds	\$	<u>5,645,107</u>

The Center incurred no changes in endowment net assets for the years ended June 30, 2016 and 2015, respectively.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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

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

12. FUNCTIONAL EXPENSES

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

	2016	2015
Behavioral health care services	\$ 51,983,165	\$ 47,079,520
General and administrative	7,453,958	7,520,638
	<u>\$ 59,437,123</u>	<u>\$ 54,600,158</u>

The Center incurred fundraising expenses which are incorporated in nonoperating revenues and expenses in the accompanying consolidated financial statements of approximately \$723,000 and \$437,000 for the years ended June 30, 2016 and 2015, respectively.

13. DEFINED CONTRIBUTION PLAN

The Center has a defined-contribution plan. Contributions to the plan are made for substantially all of its employees who meet eligibility requirements. The Center contributed 3% of each eligible employee's gross wage during 2016 and 2015. Expense under the plan was approximately \$675,000 and \$533,000 for 2016 and 2015, respectively.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

14. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Center has several non-cancelable operating leases, for certain operating facilities and equipment through 2020. The Center also has several operating leases that are on a month-to-month basis.

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

2017	\$	42,000
2018		42,000
2019		42,000
2020		31,500
Total minimum lease payments	\$	<u>157,500</u>

Total rent expense was approximately \$2,020,000 and \$1,840,000 for the years ended June 30, 2016 and 2015, respectively.

Monroe County constructed the Bloomington facility, which was completed in July 1982, and entered into lease agreement with the Center for \$1 per year. The property reverts to the County if the Center ceases to use it for certain specified purposes. The fair market value of the facility space provided by the lease is included as in-kind revenue within other revenue and expense within rent and leases in the accompanying financial statements in the approximate amount of \$1,038,000 for years ended June 30, 2016 and 2015, respectively.

Medical Malpractice Claims

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

Self-Insurance

The Center has elected to act as a self-insurer for certain costs related to employee health, dental and accident benefit programs. Expenses resulting from claims experience are recorded as incurred including an estimate of claims incurred but not reported. The approximate related expense for the years ended June 30, 2016 and 2015 aggregated \$4,167,000 and \$4,067,000, respectively. The Center has purchased insurance, which limits its exposure on a per individual basis of \$175,000 and no aggregate basis.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Litigation

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

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

Guarantee

The Center is a guarantor along with certain other Sister centers to a loan payable issued to the Parent center in the original amount of approximately \$6,265,000 maturing on August 15, 2017, approximate monthly payments of \$26,102, with interest rate of LIBOR plus 2.5%. The balance outstanding was approximately \$5,065,000 and \$5,380,000 as of June 30, 2016 and 2015, respectively. This loan is collateralized with buildings and real estate with a net book value of approximately \$12,470,000 as of June 30, 2016.

The Center is also a guarantor with certain other Sister centers to a revolving promissory note issued to the Parent corporation in the amount of \$5,000,000 which matures on December 31, 2016. The Parent corporation had no borrowings outstanding on the line of credit as of June 30, 2016 and 2015, respectively. The line of credit is collateralized with buildings, real estate, and accounts receivable with a net book value of \$12,480,000.

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

Property and Equipment

As of June 30, 2016, the Center had commitments for various property and equipment projects that approximated \$128,000, which are expected to be completed in 2017.

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

15. NET SERVICE REVENUE

The Center has agreements with third-party payors including Medicare, Medicaid and the State of Indiana and other commercial insurance carriers that provide for payments to the Center at amounts different from its established rates. The following is a schedule of gross service charges by category, charity care, subsidized and contractual adjustments incurred during 2016 and 2015:

	2016	2015
Gross client service revenue	\$ 86,567,558	\$ 54,127,640
Less deductions		
Charity care	(1,984,303)	(2,149,150)
Contractuals	(53,584,100)	(22,178,001)
Net client service revenue	30,999,155	29,800,489
Less provision for bad debt	(1,839,506)	(1,033,658)
Net client service revenue less provision for bad debt	\$ 29,159,649	\$ 28,766,831

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

16. PUBLIC SUPPORT

The composition of public support during June 30, 2016 and 2015 is set forth in the following table.

	2016	2015
Public Support		
U.S. Department of Housing and Urban Development	\$ 173,124	\$ 224,709
Medicaid administrative outreach	2,191,188	2,022,402
Division of Mental Health	14,317,336	15,391,545
County funds	3,358,776	3,445,574
Vocational Rehab	305,702	723,864
State Women Infant Children	497,188	490,816
Other public support	3,482,203	1,696,727
	\$ 24,325,517	\$ 23,995,637

CENTERSTONE OF INDIANA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

17. CONCENTRATIONS OF CREDIT RISK

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

	Receivables		Revenue	
	2016	2015	2016	2015
Medicare	2%	3%	2%	6%
Medicaid	56%	56%	88%	73%
Self pay	7%	7%	3%	7%
Other third-party payors	35%	34%	7%	14%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

SUPPLEMENTARY INFORMATION

CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION JUNE 30, 2016

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Johnson Nichols Health Clinic, Inc.	Independent Living Alternatives	Supportive Housing	Eliminations	Total
ASSETS							
Current assets							
Cash and cash equivalents	\$ 6,049,711	\$ 680,660	\$ 20,850	\$ 120,286	\$ 367,791	\$ -0-	\$ 7,239,298
Accounts receivable, net	4,387,555	-0-	-0-	175	-0-	-0-	4,387,730
Other receivables	4,436,303	-0-	71,868	-0-	-0-	(175,078)	4,333,093
Due from affiliated entities	4,100,385	-0-	-0-	-0-	-0-	(6,526)	4,093,859
Unconditional promises to give, net	-0-	225,280	-0-	-0-	-0-	-0-	225,280
Prepaid expenses and other current assets	140,611	-0-	-0-	-0-	14,167	-0-	154,778
Total current assets	<u>19,114,565</u>	<u>905,940</u>	<u>92,718</u>	<u>120,461</u>	<u>381,958</u>	<u>(181,604)</u>	<u>20,434,038</u>
Property and equipment, net	16,056,600	10,500	-0-	238,829	7,917,097	-0-	24,223,026
Other assets	88,184	-0-	-0-	-0-	-0-	-0-	88,184
Unconditional promises to give, net	-0-	81,840	-0-	-0-	-0-	-0-	81,840
Beneficial interest	-0-	1,230,716	-0-	-0-	-0-	-0-	1,230,716
Assets whose use is limited	200,870	8,016,294	-0-	-0-	-0-	-0-	8,217,164
Total assets	<u>\$ 35,460,219</u>	<u>\$ 10,245,290</u>	<u>\$ 92,718</u>	<u>\$ 359,290</u>	<u>\$ 8,299,055</u>	<u>\$ (181,604)</u>	<u>\$ 54,274,968</u>
LIABILITIES AND NET ASSETS							
Current liabilities							
Current portion of long term debt	\$ 435,804	\$ -0-	\$ -0-	\$ 15,361	\$ 499,083	\$ -0-	\$ 950,248
Accounts payable and accrued expenses	761,993	26,124	119,114	14,504	18,623	(175,078)	765,280
Due to affiliated entities	-0-	3,061	6,526	-0-	-0-	(6,526)	3,061
Estimated third party settlements	1,009,193	-0-	-0-	-0-	-0-	-0-	1,009,193
Accrued payroll, benefits and taxes	4,243,571	7,235	-0-	-0-	-0-	-0-	4,250,806
Total current liabilities	<u>6,450,561</u>	<u>36,420</u>	<u>125,640</u>	<u>29,865</u>	<u>517,706</u>	<u>(181,604)</u>	<u>6,978,588</u>
Long term debt							
Revenue bonds, net of current portion	2,384,494	-0-	-0-	-0-	-0-	-0-	2,384,494
Other long term debt, net of current portion	345,486	-0-	-0-	464,313	6,140,833	-0-	6,950,632
Total long term debt	<u>2,729,980</u>	<u>-0-</u>	<u>-0-</u>	<u>464,313</u>	<u>6,140,833</u>	<u>-0-</u>	<u>9,335,126</u>
Other liabilities	-0-	-0-	-0-	-0-	401,000	-0-	401,000
Agency liabilities	-0-	35,953	-0-	-0-	-0-	-0-	35,953
Total liabilities	<u>9,180,541</u>	<u>72,373</u>	<u>125,640</u>	<u>494,178</u>	<u>7,059,539</u>	<u>(181,604)</u>	<u>16,750,667</u>
Total net assets							
Unrestricted	26,279,678	2,347,935	(32,922)	(134,888)	1,239,516	-0-	29,699,319
Temporarily restricted	-0-	2,179,875	-0-	-0-	-0-	-0-	2,179,875
Permanently restricted	-0-	5,645,107	-0-	-0-	-0-	-0-	5,645,107
Total net assets	<u>26,279,678</u>	<u>10,172,917</u>	<u>(32,922)</u>	<u>(134,888)</u>	<u>1,239,516</u>	<u>-0-</u>	<u>37,524,301</u>
Total liabilities and net assets	<u>\$ 35,460,219</u>	<u>\$ 10,245,290</u>	<u>\$ 92,718</u>	<u>\$ 359,290</u>	<u>\$ 8,299,055</u>	<u>\$ (181,604)</u>	<u>\$ 54,274,968</u>

See Report of Independent Auditors on Pages 1 - 3.

CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2016

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Johnson Nichols Health Clinic, Inc.	Independent Living Alternatives	Supportive Housing	Eliminations	Total
Revenue, gains and other support							
Net client service revenue	\$ 30,999,155	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 30,999,155
Less provision for bad debts	1,839,506	-0-	-0-	-0-	-0-	-0-	1,839,506
Net client service revenue less provision for bad debts	29,159,649	-0-	-0-	-0-	-0-	-0-	29,159,649
Public support	23,211,589	-0-	612,527	-0-	501,401	-0-	24,325,517
Other revenue	4,209,603	-0-	-0-	153,514	331,739	(25,605)	4,669,251
Net assets released from restrictions	-0-	1,113,491	-0-	-0-	-0-	-0-	1,113,491
Total revenue, gains and other support	56,580,841	1,113,491	612,527	153,514	833,140	(25,605)	59,267,908
Expenses							
Salary and fringe benefits	38,809,465	-0-	448,855	-0-	-0-	-0-	39,258,320
Telephone	846,373	-0-	-0-	-0-	-0-	-0-	846,373
Travel	2,220,081	-0-	-0-	-0-	-0-	-0-	2,220,081
Drugs and supplies	1,014,747	-0-	-0-	-0-	-0-	-0-	1,014,747
Contracted services	1,438,675	-0-	-0-	-0-	-0-	-0-	1,438,675
Purchased services	442,560	-0-	-0-	25,605	73,649	(25,605)	516,209
Utilities	584,736	-0-	-0-	12,962	102,331	-0-	700,029
Repairs and maintenance	655,865	-0-	-0-	31,686	85,527	-0-	773,078
Affiliated management fees	7,324,548	-0-	-0-	-0-	19,784	(28,774)	7,315,558
Rents and leases	2,016,831	-0-	-0-	-0-	-0-	-0-	2,016,831
Depreciation and amortization	1,016,435	-0-	-0-	22,040	228,913	-0-	1,267,388
Insurance	376,509	-0-	-0-	6,972	14,989	-0-	398,470
Interest	91,411	-0-	-0-	46,989	-0-	-0-	138,400
Miscellaneous	1,460,488	-0-	128,824	-0-	-0-	(56,348)	1,532,964
Total expenses	58,298,724	-0-	577,679	146,254	525,193	(110,727)	59,437,123
Operating gain (loss)	\$ (1,717,883)	\$ 1,113,491	\$ 34,848	\$ 7,260	\$ 307,947	\$ 85,122	\$ (169,215)

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CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2016

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Johnson Nichols Health Clinic, Inc.	Independent Living Alternatives	Supportive Housing	Eliminations	Total
Nonoperating revenues and expenses							
Foundation related expenses	\$ -0-	\$ (723,406)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ (723,406)
Contributions and pledges	-0-	541,175	-0-	-0-	-0-	(56,348)	484,827
Other	83,135	212,406	-0-	-0-	-0-	(28,774)	266,767
Interest and dividends	5,012	127,369	-0-	-0-	1,604	-0-	133,985
Realized losses on investments	-0-	(143,257)	-0-	-0-	-0-	-0-	(143,257)
Unrealized losses on investment	-0-	(209,234)	-0-	-0-	-0-	-0-	(209,234)
	<u>88,147</u>	<u>(194,947)</u>	<u>-0-</u>	<u>-0-</u>	<u>1,604</u>	<u>(85,122)</u>	<u>(190,318)</u>
Excess of revenue over expenses	(1,629,736)	918,544	34,848	7,260	309,551	-0-	(359,533)
Other changes in unrestricted net assets							
Contributions to supported entities	-0-	(1,416,788)	-0-	-0-	-0-	-0-	(1,416,788)
Net assets released from restriction	-0-	303,297	-0-	-0-	-0-	-0-	303,297
Equity transfer with Centerstone of America	-0-	-0-	(67,770)	-0-	-0-	-0-	(67,770)
Change in unrestricted net assets	(1,629,736)	(194,947)	(32,922)	7,260	309,551	-0-	(1,540,794)
Temporarily restricted							
Contributions and pledges	-0-	1,934,978	-0-	-0-	-0-	-0-	1,934,978
Net assets released from restrictions	-0-	(1,416,788)	-0-	-0-	-0-	-0-	(1,416,788)
Change in value of beneficial interest	-0-	(93,732)	-0-	-0-	-0-	-0-	(93,732)
Change in temporarily restricted net assets	-0-	424,458	-0-	-0-	-0-	-0-	424,458
Change in net assets	(1,629,736)	229,511	(32,922)	7,260	309,551	-0-	(1,116,336)
Net assets, beginning of year	27,909,414	9,943,406	-0-	(142,148)	929,965	-0-	38,640,637
Net assets, end of year	<u>\$ 26,279,678</u>	<u>\$ 10,172,917</u>	<u>\$ (32,922)</u>	<u>\$ (134,888)</u>	<u>\$ 1,239,516</u>	<u>\$ -0-</u>	<u>\$ 37,524,301</u>

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CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION JUNE 30, 2015

ASSETS	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Independent Living Alternatives	Supportive Housing	Eliminations	Total
Current assets						
Cash and cash equivalents	\$ 11,764,450	\$ 1,162,520	\$ 103,841	\$ 350,809	\$ -0-	\$ 13,381,620
Accounts receivable, net	1,579,635	-0-	15,257	-0-	-0-	1,594,892
Other receivables	4,011,794	-0-	-0-	-0-	-0-	4,011,794
Due from affiliated entities	2,998,879	-0-	-0-	-0-	-0-	2,998,879
Unconditional promises to give, net	-0-	372,818	-0-	-0-	-0-	372,818
Prepaid expenses and other current assets	133,108	-0-	-0-	10,177	-0-	143,285
Total current assets	<u>20,487,866</u>	<u>1,535,338</u>	<u>119,098</u>	<u>360,986</u>	<u>-0-</u>	<u>22,503,288</u>
Property and equipment, net	17,260,544	10,789	260,869	8,146,010	-0-	25,678,212
Other assets	58,643	-0-	-0-	-0-	-0-	58,643
Unconditional promises to give, net	-0-	207,572	-0-	-0-	-0-	207,572
Beneficial interest	-0-	1,324,448	-0-	-0-	-0-	1,324,448
Assets whose use is limited	213,561	8,241,418	-0-	-0-	-0-	8,454,979
Total assets	<u>\$ 38,020,614</u>	<u>\$ 11,319,565</u>	<u>\$ 379,967</u>	<u>\$ 8,506,996</u>	<u>\$ -0-</u>	<u>\$ 58,227,142</u>
LIABILITIES AND NET ASSETS						
Current liabilities						
Current portion of long term debt	\$ 430,334	\$ -0-	\$ 16,221	\$ 499,083	\$ -0-	\$ 945,638
Accounts payable and accrued expenses	803,135	10,004	26,220	37,032	-0-	876,391
Due to affiliated entities	-0-	1,104,935	-0-	-0-	-0-	1,104,935
Estimated third party settlements	1,518,845	-0-	-0-	-0-	-0-	1,518,845
Accrued payroll, benefits and taxes	4,194,165	5,934	-0-	-0-	-0-	4,200,099
Total current liabilities	<u>6,946,479</u>	<u>1,120,873</u>	<u>42,441</u>	<u>536,115</u>	<u>-0-</u>	<u>8,645,908</u>
Long term debt						
Revenue bonds, net of current portion	2,806,974	-0-	-0-	-0-	-0-	2,806,974
Other long term debt, net of current portion	357,747	-0-	479,674	6,639,916	-0-	7,477,337
Total long term debt	<u>3,164,721</u>	<u>-0-</u>	<u>479,674</u>	<u>6,639,916</u>	<u>-0-</u>	<u>10,284,311</u>
Other liabilities	-0-	-0-	-0-	401,000	-0-	401,000
Agency liabilities	-0-	255,286	-0-	-0-	-0-	255,286
Total liabilities	<u>10,111,200</u>	<u>1,376,159</u>	<u>522,115</u>	<u>7,577,031</u>	<u>-0-</u>	<u>19,586,505</u>
Total net assets						
Unrestricted	27,909,414	2,542,882	(142,148)	929,965	-0-	31,240,113
Temporarily restricted	-0-	1,755,417	-0-	-0-	-0-	1,755,417
Permanently restricted	-0-	5,645,107	-0-	-0-	-0-	5,645,107
Total net assets	<u>27,909,414</u>	<u>9,943,406</u>	<u>(142,148)</u>	<u>929,965</u>	<u>-0-</u>	<u>38,640,637</u>
Total liabilities and net assets	<u>\$ 38,020,614</u>	<u>\$ 11,319,565</u>	<u>\$ 379,967</u>	<u>\$ 8,506,996</u>	<u>\$ -0-</u>	<u>\$ 58,227,142</u>

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CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2015

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Independent Living Alternatives	Supportive Housing	Eliminations	Total
Revenue, gains and other support						
Net client service revenue	\$ 29,800,489	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 29,800,489
Less provision for bad debts	1,033,658	-0-	-0-	-0-	-0-	1,033,658
Net client service revenue less provision for bad debts	28,766,831	-0-	-0-	-0-	-0-	28,766,831
Public support	23,492,865	-0-	-0-	502,772	-0-	23,995,637
Other revenue	4,023,826	-0-	153,293	340,088	(42,289)	4,474,918
Net assets released from restrictions	-0-	622,291	-0-	-0-	-0-	622,291
Total revenue, gains and other support	56,283,522	622,291	153,293	842,860	(42,289)	57,859,677
Expenses						
Salary and fringe benefits	35,664,077	-0-	-0-	-0-	-0-	35,664,077
Telephone	804,564	-0-	-0-	-0-	-0-	804,564
Travel	2,038,902	-0-	-0-	-0-	-0-	2,038,902
Drugs and supplies	973,077	-0-	-0-	-0-	-0-	973,077
Contracted services	1,312,109	-0-	-0-	-0-	-0-	1,312,109
Purchased services	318,631	-0-	42,289	81,096	(42,289)	399,727
Utilities	628,202	-0-	17,849	110,681	-0-	756,732
Repairs and maintenance	673,403	-0-	48,914	86,953	-0-	809,270
Affiliated management fees	7,310,374	-0-	-0-	19,684	-0-	7,330,058
Rents and leases	1,843,608	-0-	-0-	-0-	-0-	1,843,608
Depreciation and amortization	1,062,916	-0-	22,040	228,914	-0-	1,313,870
Insurance	402,582	-0-	10,549	16,503	-0-	429,634
Interest	144,364	-0-	46,216	-0-	-0-	190,580
Miscellaneous	781,743	-0-	-0-	-0-	(47,793)	733,950
Total expenses	53,958,552	-0-	187,857	543,831	(90,082)	54,600,158
Operating gain (loss)	\$ 2,324,970	\$ 622,291	\$ (34,564)	\$ 299,029	\$ 47,793	\$ 3,259,519

See Report of Independent Auditors on Pages 1 - 3.

CENTERSTONE OF INDIANA, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2015

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Independent Living Alternatives	Supportive Housing	Eliminations	Total
Nonoperating revenues and expenses						
Foundation related expenses	\$ -0-	\$ (437,386)	\$ -0-	\$ -0-	\$ -0-	\$ (437,386)
Contributions and pledges	-0-	613,286	-0-	-0-	(47,793)	565,493
Other	38,303	147,660	-0-	-0-	-0-	185,963
Interest and dividends	5,150	123,890	-0-	1,317	-0-	130,357
Realized gains on investments	-0-	1,031,741	-0-	-0-	-0-	1,031,741
Unrealized loss on investment	-0-	(967,927)	-0-	-0-	-0-	(967,927)
	43,453	511,264	-0-	1,317	(47,793)	508,241
Excess of revenue over expenses	2,368,423	1,133,555	(34,564)	300,346	-0-	3,767,760
Other changes in unrestricted net assets						
Contributions to supported entities	-0-	(1,393,469)	-0-	-0-	-0-	(1,393,469)
Net assets released from restriction	-0-	771,178	-0-	-0-	-0-	771,178
Change in unrestricted net assets	2,368,423	511,264	(34,564)	300,346	-0-	3,145,469
Temporarily restricted						
Contributions and pledges	-0-	1,760,253	-0-	-0-	-0-	1,760,253
Net assets released from restrictions	-0-	(1,393,469)	-0-	-0-	-0-	(1,393,469)
Equity transfer with Centerstone of Illinois	-0-	52,570	-0-	-0-	-0-	52,570
Change in value of beneficial interest	-0-	(55,368)	-0-	-0-	-0-	(55,368)
Change in temporarily restricted net assets	-0-	363,986	-0-	-0-	-0-	363,986
Change in net assets	2,368,423	875,250	(34,564)	300,346	-0-	3,509,455
Net assets, beginning of year	25,540,991	9,068,156	(107,584)	629,619	-0-	35,131,182
Net assets, end of year	\$ 27,909,414	\$ 9,943,406	\$ (142,148)	\$ 929,965	\$ -0-	\$ 38,640,637

See Report of Independent Auditors on Pages 1 - 3.

CENTERSTONE OF INDIANA, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Program Title/Pass-through	Grantor	CFDA #	Expenditures
Major Program			
Substance Abuse, Prevention, and Treatment Block Grant - Passed through the Indiana Division of Mental Health	DHHS	93.959	\$ 2,216,689
Non-Major Programs			
Community Mental Health Services Block Grant - Passed through the Indiana Division of Mental Health	DHHS	93.958	577,813
Social Services Block Grant - Passed through the Indiana Division of Mental Health	DHHS	93.667	319,424
Administration for Children and Families Grant - Passed through the Indiana Division of Mental Health	DHHS	93.086	267,905
Special Supplemental Nutrition Program for Women, Infants and Children (WIC) - Passed through the Indiana State Department of Health	FNS	10.557	497,188
Supportive Housing Program	DHUD	14.235	173,122
Shelter Plus Care - Passed through the Indiana Housing and Community Development Authority	DHUD	14.238	93,842
Projects for Assistance in Transition from Homelessness (PATH) - Passed through the Indiana Division of Mental Health	DHHS	93.150	73,642
Substance Abuse Treatment and HIV Services TCE - Substance Abuse and Mental Health Services Administration (SAMHSA) - Passed through the Indiana Division of Mental Health	DHHS	93.243	552,922
Total non-major programs			<u>2,555,858</u>
Total federal expenditures			<u>\$ 4,772,547</u>

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards for the year ended June 30, 2016 includes the federal grant activity of Centerstone of Indiana, Inc. only and not the consolidated affiliates and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Audits of States, Local Governments, and Non-Profit Organizations*. Johnson Nichols Inc. received approximately \$663,000, for the year ended September 30, 2015, in federal awards which are not included in Centerstone of Indiana's accompanying schedule of expenditures of federal awards for 2016.

CENTERSTONE OF INDIANA, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

The basic consolidated 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 consolidated financial statements.

Note B – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Center has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

CENTERSTONE OF INDIANA, INC.

SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS YEAR ENDED JUNE 30, 2016

Grantor	Center Expenditures
State	
Indiana Division of Mental Health and Addiction	\$ 11,319,972
Other	632,630
Total state awards	<u>11,952,602</u>
Local	
Bartholomew County Funds	586,932
Brown County Funds	43,462
Decatur County Funds	178,825
Fayette County Funds	87,531
Jackson County Funds	307,357
Jefferson County Funds	109,309
Jennings County Funds	133,559
Lawrence County Funds	180,066
Marion County Funds	103,381
Monroe County Funds	641,477
Morgan County Funds	353,655
Owen County Funds	78,743
Rush County Funds	173,349
Randolph County Funds	161,288
Union County Funds	43,722
Wayne County Funds	426,247
Other	395,405
Total local awards	<u>4,004,308</u>
Total state and local awards	<u><u>\$ 15,956,910</u></u>

Note – The accompanying schedule of expenditures of state and local awards for the year ended June 30, 2016, includes the state award activity of the Centerstone of Indiana presented 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. Johnson Nichols Inc. received approximately \$242,000, for the year ended September 30, 2015, in state and local awards which are not included above.



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

Board of Directors
Centerstone of America, Inc.
Nashville, Tennessee

Report on the Consolidated Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Guidelines for Examination of Entities Receiving Financial Assistance, issued by the Indiana State Board of Accounts, the consolidated financial statements of Centerstone of Indiana, Inc. (the Center), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 29, 2016. Our report included an explanatory paragraph stating that the Center is part of an affiliated group of entities that has been consolidated into the reporting entity Centerstone of America, and that these financial statements include only the financial position changes in net assets and cash flows of Center. Our report includes a reference to other auditors who audited the financial statements of Independent Living Alternatives, Inc. d/b/a Cumberland Apartments and Centerstone Supportive Housing, LLC d/b/a Redwood Terrace, as described in our report on the Center's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Independent Living Alternatives, Inc. d/b/a Cumberland Apartments and Centerstone Supportive Housing, LLC d/b/a Redwood Terrace were not audited in accordance with *Government Audit Standards*.

Internal Control Over Financial Reporting

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

Board of Directors
Centerstone of America
Nashville, Tennessee

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Blue & Co., LLC

Indianapolis, Indiana
November 29, 2016



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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Centerstone of America, Inc.
Nashville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited Centerstone of Indiana, Inc. (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2016. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The Center's consolidated financial statements include the operations of Johnson Nichols, Inc., which received approximately \$663,000 in federal awards for the year ended September 30, 2015 which is not included in the Center's schedule of expenditures of federal awards during the year ended June 30, 2016. Our audit, described below, did not include the operations of Johnson Nichols, Inc. because they engaged other auditors to perform an audit of compliance.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Board of Directors
Centerstone of America
Nashville, Tennessee

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

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

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

Board of Directors
Centerstone of America
Nashville, Tennessee

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

Blue & Co., LLC

Indianapolis, Indiana
November 29, 2016

CENTERSTONE OF INDIANA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Section I – Summary of Audit Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X none reported

Significant deficiency(s) identified that are not considered to be material weakness(es) noted? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal controls over major programs:

Material weakness(es) identified? yes X none reported

Significant deficiency(s) identified that are not considered to be material weakness(es) noted? yes X none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? yes X no

Identification of major programs:

CFDA Number
93.959

Name of Federal Program or Cluster
Substance Abuse, Prevention, and Treatment Block Grant - Passed through the Indiana Division of Mental Health

Dollar threshold used to distinguish between type A and B programs: \$750,000

Auditee qualified as low-risk auditee? X yes no

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

No matters reported

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

No matters reported

Section IV - Summary Schedule of Prior Audit Findings:

No matters reported
