



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B55603

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August 19, 2020

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

We have reviewed the audit report of Centerstone of Indiana, Inc., which was opined upon by LBMC, PC, Independent Public Accountants, for the period July 1, 2017 to June 30, 2018. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Centerstone of Indiana, Inc. as of June 30, 2018 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, LBMC, PC prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

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

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

CENTERSTONE OF INDIANA, INC.

**Consolidated Financial Statements and
Supplemental Schedules**

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

LBMC

**MAKE A GOOD
BUSINESS BETTER**

CENTERSTONE OF INDIANA, INC.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Centerstone of Indiana, Inc. and its subsidiaries (the "Corporation"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, 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.

Auditors' 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, wholly owned subsidiaries, included in the consolidated financial statements, whose statements reflect total assets of approximately \$8,291,000 and \$8,476,000 as of June 30, 2018 and 2017, respectively, and total revenues of approximately \$981,000 and \$975,000 for the years ended June 30, 2018 and 2017, respectively. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 Corporation'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 Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, 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 Centerstone of Indiana, Inc. and its subsidiaries as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Report on Supplementary Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating schedules listed in the table of contents are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and are 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 consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, 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.

LBMC, PC

Brentwood, Tennessee
November 28, 2018

CENTERSTONE OF INDIANA, INC.

Consolidated Statements of Financial Position

June 30, 2018 and 2017

	<u>Assets</u>	
	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 3,558,610	\$ 8,711,070
Accounts receivable, net	4,598,621	4,406,709
Other receivables	4,824,849	3,718,391
Due from affiliated entities	2,618,443	2,754,339
Unconditional promises to give, net	294,261	185,105
Prepaid expenses and other current assets	187,339	206,369
	<hr/>	<hr/>
Total current assets	16,082,123	19,981,983
Property and equipment, net	24,592,054	23,443,211
Other assets	52,405	49,100
Unconditional promises to give, net	59,782	134,964
Beneficial interest	1,337,837	1,313,526
Assets whose use is limited	9,448,694	8,975,135
	<hr/>	<hr/>
Total assets	<u>\$ 51,572,895</u>	<u>\$ 53,897,919</u>
 <u>Liabilities and Net Assets</u> 		
Current liabilities:		
Current portion of long-term debt	\$ 949,987	\$ 951,731
Accounts payable and accrued expenses	1,036,625	884,904
Estimated third-party settlements	602,466	1,009,193
Due to affiliated entities	2,580,555	1,256,685
Accrued payroll, benefits and taxes	2,348,138	2,472,463
	<hr/>	<hr/>
Total current liabilities	7,517,771	6,574,976
Long-term debt, excluding current portion, net of deferred financing costs	7,407,893	8,351,990
Other long-term liabilities	422,396	461,587
Agency liabilities	-	34,676
	<hr/>	<hr/>
Total liabilities	15,348,060	15,423,229
 Net assets:		
Unrestricted	30,496,745	31,945,622
Temporarily restricted	22,983	883,961
Permanently restricted	5,705,107	5,645,107
	<hr/>	<hr/>
Total net assets	36,224,835	38,474,690
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 51,572,895</u>	<u>\$ 53,897,919</u>

See accompanying notes to the consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

Consolidated Statements of Activities and Changes in Net Assets

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenue and other support:		
Net client service revenue	\$ 38,334,193	\$ 34,569,320
Provision for bad debts	(704,412)	(859,558)
Net client service revenue less provision for bad debts	37,629,781	33,709,762
Public support	28,647,551	27,909,565
Other revenue	5,483,711	4,879,721
Total revenue and other support	71,761,043	66,499,048
Expenses:		
Salary and fringe benefits	49,313,753	42,864,827
Telephone	940,334	859,717
Travel	2,834,610	2,437,062
Drugs and supplies	1,485,148	1,181,711
Contracted services	2,526,770	2,063,007
Purchased services	177,687	226,914
Utilities	869,646	785,705
Repairs and maintenance	919,302	825,447
Affiliated management fees	9,490,852	8,701,715
Rents and leases	2,314,012	2,080,318
Depreciation and amortization	1,236,002	1,212,479
Insurance	459,209	388,870
Interest	127,692	139,549
Miscellaneous	523,597	1,331,717
Total expenses	73,218,614	65,099,038
Operating gain (loss)	(1,457,571)	1,400,010

See accompanying notes to the consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

Consolidated Statements of Activities and Changes in Net Assets (Continued)

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Nonoperating revenues (expenses):		
Foundation related expenses	(2,939,060)	(1,112,881)
Contributions and pledges	2,050,959	685,844
Realized gain on investments	900,741	1,539,316
Unrealized loss on investments	(243,250)	(607,653)
Interest and dividends	138,812	132,043
Loss on disposal of assets	(25,105)	-
Other	125,597	209,624
Total nonoperating revenues	8,694	846,293
Excess of revenue over (under) expenses	(1,448,877)	2,246,303
Other changes in unrestricted net assets:		
Contributions to supported entities	(1,609,166)	(2,209,302)
Net assets released from restrictions	1,609,166	2,209,302
Change in unrestricted net assets	(1,448,877)	2,246,303
Change in temporarily restricted net assets:		
Contributions and pledges	723,877	830,578
Change in value of beneficial interest	24,311	82,810
Net assets released from restriction	(1,609,166)	(2,209,302)
Change in temporarily restricted net assets	(860,978)	(1,295,914)
Change in permanently restricted net assets:		
Contributions	60,000	-
Change in permanently restricted net assets	60,000	-
Change in net assets	(2,249,855)	950,389
Net assets at beginning of year	38,474,690	37,524,301
Net assets at end of year	\$ 36,224,835	\$ 38,474,690

See accompanying notes to the consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating activities:		
Change in net assets	\$ (2,249,855)	\$ 950,389
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Loss on the disposal of assets	25,105	-
Public support - debt forgiveness	(499,083)	(499,083)
Depreciation and amortization	1,236,002	1,212,479
Amortization of deferred financing costs	6,480	6,480
Provision for bad debts	704,412	859,558
Unrealized loss on investments	243,250	607,653
Realized gain on sale of investments	(900,741)	(1,539,316)
Change in beneficial interest	(24,311)	(82,810)
Provisions for uncollectible and discount to net present value on promises to give	(228,732)	(181,065)
Restricted contributions and pledges	(783,877)	(830,578)
Changes in operating assets and liabilities		
Accounts receivable, net	(896,324)	(878,537)
Due to/from affiliates	1,459,766	2,593,144
Other receivables	(1,106,458)	614,702
Unconditional promises to give, net	194,758	168,116
Prepaid expenses and other assets	15,725	(54,670)
Accounts payable and accrued expenses	151,721	218,338
Estimated third-party settlements	(406,727)	-
Accrued payroll, benefits and taxes	(124,325)	(1,778,343)
Other long-term liabilities	(39,191)	(38,127)
Net cash provided (used) by operating activities	<u>(3,222,405)</u>	<u>1,348,330</u>
Investing activities:		
Purchase of property and equipment	(3,058,950)	(432,664)
Proceeds from the sale of property and equipment	649,000	-
Proceeds from the sale or maturity of investments	4,632,922	7,676,317
Purchases of investments	(4,448,990)	(7,502,625)
Change in agency liabilities	(34,676)	(1,277)
Net cash used by investing activities	<u>(2,260,694)</u>	<u>(260,249)</u>
Financing activities:		
Restricted contributions and pledges	783,877	830,578
Principal payments on long term debt	(453,238)	(446,887)
Net cash provided by financing activities	<u>330,639</u>	<u>383,691</u>
Increase (decrease) in cash and cash equivalents	(5,152,460)	1,471,772
Cash and cash equivalents at beginning of year	<u>8,711,070</u>	<u>7,239,298</u>
Cash and cash equivalents at end of year	<u>\$ 3,558,610</u>	<u>\$ 8,711,070</u>
Supplemental cash flows information:		
Cash paid for interest	<u>\$ 121,212</u>	<u>\$ 133,068</u>
Noncash financing activities:		
Indiana Housing and Community Development Authority debt forgiveness	<u>\$ 499,083</u>	<u>\$ 499,083</u>

See accompanying notes to consolidated financial statements

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

(1) Nature of operations

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

(2) Summary of significant accounting policies

(a) Principles of consolidation

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

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

Johnson Nichols is a health clinic located in Indiana in which the Corporation pays the salaries generated at Johnson Nichols and is reimbursed accordingly. During 2016, the Corporation became the sole member of Johnson Nichols as its communities served aligned with the Corporation's operations. Previously, Johnson Nichols was reported within Centerstone of America, Inc. Johnson Nichols ceased operations effective September 30, 2017.

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").

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

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

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

All material intercompany accounts and transactions have been eliminated.

(b) Affiliated entities and related parties

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

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

(c) Basis of presentation

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

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 Corporation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that may or will be met either by action of the Corporation and/or the passage of time. 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 consolidated statements of activities and changes in net assets as net assets released from restrictions.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

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 Corporation. 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.

(d) Cash and cash equivalents

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

(e) 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.

(f) Assets whose use is limited

Assets whose use is limited consist 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, 2018 and 2017 was approximately \$201,000. The funds consist of cash.

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.

(g) Accounts receivable

The accounts receivable balance represents the unpaid amounts billed to clients and third-party payors. Contractual adjustments, discounts and an allowance for doubtful accounts are recorded to report receivables for client care services at net realizable value.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

Client accounts receivable are reduced by an allowance for doubtful accounts based on the Corporation's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to its service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to clients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for contractual adjustments and a provision for bad debts, if necessary. For receivables associated with self-pay payments, which includes both clients without insurance and clients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Corporation records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many clients are unable or unwilling to pay the portion of their bill for which they are financially responsible. 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.

The Corporation's allowance for doubtful accounts as of June 30, 2018 and 2017 were approximately \$287,000 and \$628,000, respectively.

(h) Other receivables

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

(i) Property and equipment and depreciation

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

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

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

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over (under) expenses, 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.

(j) 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.

(k) Net client service revenue

The Corporation recognizes net client service revenues on the accrual basis of accounting in the reporting period in which services are performed based on the current gross charge structure, less actual adjustments and estimated discounts for contractual allowances, principally for clients covered by Medicare, Medicaid, and managed care and other health plans. Gross client service revenue is recorded in the accounting records using the established rates for the type of service provided to the client. The Corporation recognizes an estimated contractual allowance to reduce gross client charges to the estimated net realizable amount for services rendered based upon previously agreed to rates with a payor. The Corporation utilizes the client billing system to calculate contractual allowances on a payor by payor basis based on the rates in effect for each primary third party payor. The management of the Corporation continually reviews the 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 and employers. These third-party payors provide payments to the Corporation at amounts different from its established rates based on negotiated reimbursement agreements. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and fee schedule payments. Retroactive adjustments under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

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

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

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

(l) Charity care

The Corporation provides care to clients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The charity care amounts are not reported as net client service revenue as the Corporation does not pursue collection. Amounts for forgone charges related to charity care are approximately \$2,190,000 and \$2,050,000 as of June 30, 2018 and 2017, respectively.

Of the Corporation's total unrestricted operating expense reported pertaining to the entities providing client care, an estimated \$1,056,000 and \$948,000 arose from providing services to charity clients during the years ended June 30, 2018 and 2017, respectively.

The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity clients. The ratio of cost to charges is calculated based on the Corporation's total expenses divided by gross client service revenue.

(m) Medicaid funds recovery

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

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

(n) Public support

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

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

The Corporation has contracts with the State of Indiana to provide community mental health services. During 2018 and 2017, the Corporation was paid by the State based upon applicable contractually agreed to stipulations.

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

(o) Contributions

Contributions received and unconditional promises to give are recorded as unrestricted, temporarily restricted or permanently restricted revenue depending on the existence of donor restrictions, if they exist.

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 restriction.

If a restriction is fulfilled in the same accounting period in which the contribution is received, the contribution is reported as unrestricted.

The Corporation 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.

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

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

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.

(p) Advertising costs

The Corporation uses advertising to promote its programs and services among the general public. The advertising costs are expensed as incurred. Advertising costs for the Corporation totaled approximately \$88,000 and \$103,000 for 2018 and 2017, respectively.

(q) Income taxes

The Corporation and its subsidiaries, except for Supportive Housing, are organized as not-for-profit corporations under section 501(c)(3) of the United States Internal Revenue Code ("IRC"). IRC Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose. Supportive Housing is organized as a limited liability company, whereby net taxable income is taxed directly to the members and not this entity. As such, Supportive Housing is generally exempt from income taxes. Accordingly, no current or deferred provision for income taxes was made for 2018 and 2017. The Corporation and its subsidiaries are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only. The Corporation and its subsidiaries have filed their federal and state income tax returns for periods through June 30, 2017. Thus, the financial statements do not include any provision for Federal or State income taxes.

Accounting principles generally accepted in the United States of America ("GAAP") require management to evaluate tax positions taken and recognize a tax liability if it is more likely than not that an uncertain tax position would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken and has concluded that as of June 30, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Corporation and its subsidiaries are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

(r) Performance indicator and operating indicator

The consolidated statements of activities and changes in net assets include a performance indicator, excess of revenues over (under) expenses. Changes in unrestricted net assets which would be excluded from the performance indicator, consistent with industry practice, include net assets released for long-lived assets and contributions to supported entities. The consolidated statements of activities and changes in net assets also include an operating indicator, operating gain (loss). Certain non-operating items are excluded from the operating indicator, including investment income, gain (loss) on investments and derivatives, interest and dividend income, Foundation related expenses, contributions from donors and related parties, other non-operating income, gains (losses) on disposal of equipment and gains on disposal of intangible assets.

(s) New accounting pronouncement

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. The ASU was issued to address certain complexities in current presentation requirements for net assets, resolve deficiencies in the transparency of information regarding an organization's liquidity and inconsistencies in the type of information provided by organizations about expenses. As a result, the primary provisions of ASU 2016-14 include:

- Reduction in the number of net asset classifications from three to two: net assets with donor restrictions and net assets without donor restrictions. Differences in the nature of donor restrictions will be disclosed in the notes, with an emphasis on how and when the resources can be used.
- Organizations will be required to disclose, either on the face of the statements or in notes, the extent to which the statement of financial position comprises financial assets, the extent to which those assets can be converted to cash within one year, and any limitations that would preclude their current use.
- In addition to reporting expenses by functional classifications under current requirements, organizations will be required to provide information about expenses by their nature through an analysis demonstrating how the nature of expenses relate to the programs and supporting activities. Additional disclosures about the methods used to allocate costs among program and support functions will also be required.

The ASU is effective for the Corporation for the year ending June 30, 2019. Management is currently assessing the impact of adopting this standard.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

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(t) Use of estimates

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

(u) Events occurring after reporting date

The Corporation has evaluated events and transactions that occurred between June 30, 2018 and November 28, 2018, which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

(3) Third-party reimbursement program

The Corporation has estimated third-party liabilities for Medicare, Medicaid, MRO, grants and other programs reflecting the difference between interim reimbursement and reimbursement as determined by contractual agreements and third-party audits. Based upon payments received from Medicare, Medicaid, MRO, grants and other programs, the Corporation has estimated third-party settlements of approximately \$602,000 and \$1,009,000 as of June 30, 2018 and 2017, respectively.

(4) Credit concentrations

The mix of the accounts receivable as of June 30 and net client service revenue for the year ending June 30 is as follows:

	<u>Receivables</u>		<u>Revenue</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Medicare	3 %	3 %	3 %	3 %
Medicaid	79 %	70 %	74 %	76 %
Self-pay	4 %	1 %	3 %	3 %
Other third-party payors	14 %	26 %	20 %	18 %
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

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(5) Beneficial interest in Community Foundation of Middle Tennessee

The Foundation is the trustee of the beneficial interest in the Community Foundation of Middle Tennessee ("Community Foundation"). Centerstone of Tennessee, Inc. transferred these funds to the Community Foundation and named Centerstone of Tennessee, Inc. as the specified beneficiary. The intended use of the Agency Endowment Fund is to support the mission of serving the needy for the Corporation. Variance power has been granted to the Community Foundation to make distributions from the fund in accordance with the Community Foundation's Articles of Incorporation and in accordance with the Community Foundation's expressed intent. Centerstone of Tennessee, Inc. has the right and responsibility to recommend distributions of principal and income, but those recommendations are advisory in nature.

The beneficial interest is reported at fair value for the years ended June 30, 2018 and 2017. The following schedule summarizes the investment expenses and earnings and its classification in the consolidated statement of activities and changes in net assets.

	<u>2018</u>	<u>2017</u>
Beneficial interest in Community Foundation, beginning of year	\$ 1,313,526	\$ 1,230,716
Investment expenses	(9,116)	(10,204)
Investment gain	100,827	156,214
Grants paid out	<u>(67,400)</u>	<u>(63,200)</u>
Beneficial interest in Community Foundation, end of year	<u>\$ 1,337,837</u>	<u>\$ 1,313,526</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 Foundation 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*.

(6) Assets whose use is limited

The composition of assets limited as to use at June 30, 2018 and 2017 is set forth in the following table.

	<u>2018</u>	<u>2017</u>
Cash	\$ 269,814	\$ 446,910
Mutual funds	8,798,989	6,373,902
Exchange-traded funds	<u>379,891</u>	<u>2,154,323</u>
	<u>\$ 9,448,694</u>	<u>\$ 8,975,135</u>

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

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(7) Fair value of financial instruments

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

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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, 2018 and 2017.

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

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

The following table sets forth by level, within the fair value hierarchy, the Corporation's assets and liabilities measured at fair value on a recurring basis at June 30, 2018 and 2017:

**Fair Value Measurements as of
June 30, 2018 using the following inputs**

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets whose use is limited				
Exchange traded funds				
Index	\$ 379,891	\$ 379,891	\$ -	\$ -
Mutual funds				
Growth	2,595,931	2,595,931	-	-
Index	1,023,362	1,023,362	-	-
Value	1,845,268	1,845,268	-	-
International	655,670	655,670	-	-
Emerging markets	138,551	138,551	-	-
Fixed income	<u>2,540,207</u>	<u>2,540,207</u>	-	-
	9,178,880	\$ <u>9,178,880</u>	\$ <u>-</u>	\$ <u>-</u>
Cash	<u>269,814</u>			
	\$ <u>9,448,694</u>			
Beneficial interest - funds held by Community Foundation	\$ <u>1,337,837</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,337,837</u>

**Fair Value Measurements as of
June 30, 2017 using the following inputs**

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets whose use is limited				
Exchange traded funds				
Growth	\$ 239,375	\$ 239,375	\$ -	\$ -
Index	1,427,846	1,427,846	-	-
Value	487,102	487,102	-	-
Mutual funds				
Growth	1,623,276	1,623,276	-	-
Value	1,263,427	1,263,427	-	-
International	752,196	752,196	-	-
Fixed income	<u>2,735,003</u>	<u>2,735,003</u>	-	-
	8,528,225	\$ <u>8,528,225</u>	\$ <u>-</u>	\$ <u>-</u>
Cash	<u>446,910</u>			
	\$ <u>8,975,135</u>			
Beneficial interest - funds held by Community Foundation	\$ <u>1,313,526</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,313,526</u>

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Notes to the Consolidated Financial Statements

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The Corporation's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no significant transfers between levels 1 and 2 during 2018 and 2017.

(8) Unconditional promises to give

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

	<u>2018</u>	<u>2017</u>
Promises receivable in less than one year	\$ 295,717	\$ 409,375
Promises receivable in one to five years	66,700	147,800
Less net present value discount	(8,374)	(12,836)
Less allowance for uncollectible pledges	<u>-</u>	<u>(224,270)</u>
	<u>\$ 354,043</u>	<u>\$ 320,069</u>

(9) Property and equipment

A summary of property and equipment as of June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 2,216,776	\$ 2,142,748
Buildings and improvements	34,509,495	34,199,215
Furnishings, equipment and vehicles	3,359,602	3,280,464
Construction in progress	<u>246,892</u>	<u>4,812</u>
	40,332,765	39,627,239
Accumulated depreciation and amortization	<u>(15,740,711)</u>	<u>(16,184,028)</u>
	<u>\$ 24,592,054</u>	<u>\$ 23,443,211</u>

As of June 30, 2018 the Corporation has commitments for various property and equipment projects that approximate \$44,000 and are expected to be completed during 2019.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

(10) Long-term debt

A summary of long-term debt as of June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Mortgage payable to Indiana Housing & Community Development Authority, 0% interest, due 2026, forgiven over a 15 year period, collateralized by certain real estate.	\$ 5,642,750	\$ 6,141,833
Indiana Department of Finance Authority ("IDFA") Series 2002 variable rate demand economic development revenue bonds, variable interest rate of 1 month LIBOR (2.09% at June 30, 2018), \$200,000 redeemed on December 1st each year, final payment due December 2022, collateralized by certain real estate and accounts receivable.	1,000,000	1,200,000
Note payable to financial institution, variable interest rate of one month LIBOR plus 1.85% (3.94% as of June 30, 2018), payable in monthly principal and interest payments of \$20,810 through April 9, 2022, collateralized by certain real estate and bank accounts with a balance of approximately \$200,000.	926,043	1,149,447
Mortgage loan with U.S. Department of Housing and Urban Development. Monthly installments of principal and interest are approximately \$5,000 with a maturity date of July 1, 2031. Interest is being charged at a fixed rate of 9.25%, collateralized by certain real estate.	448,016	464,703

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Notes to the Consolidated Financial Statements

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Note payable to financial institution, 7.00% fixed rate, payable in monthly installments of \$3,076 due September 2032, collateralized by certain real estate.	<u>370,274</u>	<u>383,421</u>
Total long-term debt	8,387,083	9,339,404
Less deferred financing costs	29,203	35,683
Less current installments	<u>949,987</u>	<u>951,731</u>
Long-term debt, excluding current installments	<u>\$ 7,407,893</u>	<u>\$ 8,351,990</u>

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

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 and as long as Supportive Housing manages and operates the Project for its intended purpose.

Aggregate annual maturities of long-term debt as of June 30, 2018 is as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 949,987
2020	946,483
2021	946,483
2022	946,483
2023	771,590
2024 and later years	<u>3,826,057</u>
	<u>\$ 8,387,083</u>

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

CENTERSTONE OF INDIANA, INC.

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(11) Net assets

The temporarily restricted net assets are available for the following purposes as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Dede Wallace Campus	\$ -	\$ 222,164
Research	-	638,814
Centerstone Military Services Executive Director Position	<u>22,983</u>	<u>22,983</u>
	<u>\$ 22,983</u>	<u>\$ 883,961</u>

Permanently restricted net assets consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Permanent endowments	\$ 4,705,107	\$ 4,645,107
Beneficial interest	<u>1,000,000</u>	<u>1,000,000</u>
	<u>\$ 5,705,107</u>	<u>\$ 5,645,107</u>

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

(12) Endowment funds

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

Specifically, the primary objective in the investment management for endowment fund assets shall be long-term growth of capital and to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index. The board of directors has interpreted the relevant law as requiring prudent preservation of the fund and evaluates the amounts of unrestricted income and the unrealized gains and losses periodically.

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

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

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The endowment net assets by type of fund as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Permanently restricted net assets		
Donor-restricted endowment funds	\$ 4,705,107	\$ 4,645,107
Beneficial interest funds	<u>1,000,000</u>	<u>1,000,000</u>
Total endowment funds	<u>\$ 5,705,107</u>	<u>\$ 5,645,107</u>

The Corporation has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as 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 Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Corporation, and (7) the Corporation's investment policies.

(13) Net client service revenue

The Corporation 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 Corporation at amounts different from its established rates. The following is a schedule of gross service charges, charity care and contractual adjustments incurred during 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Gross client service revenue	\$ 80,115,729	\$ 86,560,383
Less deductions:		
Charity care	(2,193,255)	(2,049,885)
Contractuals	<u>(39,588,281)</u>	<u>(49,941,178)</u>
Net client service revenue	38,334,193	34,569,320
Less provision for bad debts	<u>(704,412)</u>	<u>(859,558)</u>
Net client service revenue less provision for bad debts	<u>\$ 37,629,781</u>	<u>\$ 33,709,762</u>

CENTERSTONE OF INDIANA, INC.

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

(14) Public support

The composition of public support during June 30, 2018 and 2017 is set forth in the following table.

	<u>2018</u>	<u>2017</u>
U.S. Department of Housing and Urban Development	\$ 317,549	\$ 254,351
Medicaid administrative outreach	2,954,065	2,253,564
Division of Mental Health	15,415,246	16,070,828
County funds	3,539,797	3,426,902
State Women Infant Children	520,958	538,528
Other public support	<u>5,899,936</u>	<u>5,365,392</u>
	<u>\$ 28,647,551</u>	<u>\$ 27,909,565</u>

(15) Functional expenses

The Corporation provides behavioral healthcare services to residents within its geographic location. Expenses related to providing these services for 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Behavioral health care services	\$ 61,614,798	\$ 53,119,057
General and administrative	<u>11,603,816</u>	<u>11,979,981</u>
	<u>\$ 73,218,614</u>	<u>\$ 65,099,038</u>

The Corporation incurred fundraising expenses which are incorporated in nonoperating revenues and expenses in the accompanying consolidated financial statements of approximately \$2,939,000 and \$1,113,000 for the years ended June 30, 2018 and 2017, respectively.

(16) Defined contribution plan

The Corporation has a defined contribution plan (the "Plan"). Contributions are made to employees who meet the eligibility requirements. The Plan includes an employer match up to 3% of eligible compensation. Employer contributions to the Plan were approximately \$808,000 and \$669,000 for 2018 and 2017, respectively.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

(17) Affiliated entities and related party transactions

The Corporation entered into certain working capital, administrative and general transactions with its Parent and affiliated entities as disclosed in Note 2(b). The Corporation has recorded a net related party receivable as of June 30, 2018 and 2017. For the years ended June 30, 2018 and 2017, the Corporation incurred affiliated management fees for services provided by its Parent. For the years ended June 30, 2018 and 2017, the Corporation incurred malpractice and liability insurance coverage of approximately \$436,000 and \$368,000, respectively, which is paid by the Parent and then reimbursed by the Corporation.

The Foundation is a supporting organization to the affiliated entities. The associated balance in the related agency liability as of June 30, 2017 was approximately \$35,000. The Foundation has a net related party payable as of June 30, 2018 and 2017. During 2018 and 2017, the Foundation contributed approximately \$2,911,000 and \$2,905,000, respectively, to supported entities. For the year ended June 30, 2017, the Foundation received affiliated management fees of approximately \$176,000 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 Corporation 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 \$22,000 and \$11,000 was recorded during June 30, 2018 and 2017, respectively.

The Corporation contracts with Red Oak Industries to provide cleaning services and has recorded associated fees in the approximate amount of \$319,000 and \$444,000 during June 30, 2018 and 2017, respectively.

(18) Commitments and contingencies

Operating leases

The Corporation leases various non-cancelable operating leases for facilities and equipment. Rent expense was approximately \$2,314,000 and \$2,080,000 in 2018 and 2017, respectively. A summary of approximate future minimum payments under these leases as of June 30, 2018 is as follows:

2019	\$	449,000
2020		308,000
2021		215,000
2022		181,000
2023		<u>85,000</u>
Total minimum lease payments	\$	<u>1,238,000</u>

CENTERSTONE OF INDIANA, INC.

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It is expected that in the normal course of business, leases that expire will be renewed or replaced by other leases; thus, it is anticipated that future lease payments will not be less than the expense for 2018.

Monroe County constructed the Bloomington facility, which was completed in July 1982, and entered into a lease agreement with the Corporation for \$1.00 per year. The property reverts to the County if the Corporation ceases to use it for certain specified purposes. The fair market value of the facility space provided by the lease approximated \$984,000 and \$981,000 for the years ended June 30, 2018 and 2017, respectively, and is included in other revenue and rent expense in the accompanying consolidated statements of activities and changes in net assets.

Insurance

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

The professional and general liability insurance includes known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to clients. The State of Indiana puts a judgment cap of \$1,250,000 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.

The Corporation is self-insured for certain costs related to employee health benefit programs. Expenses resulting from claims experience are recorded as incurred including an estimate of claims incurred but not reported. The related expense for the years ended June 30, 2018 and 2017 approximated \$5,185,000 and \$4,483,000, respectively. The Corporation has purchased insurance, which limits its exposure on a per individual basis to \$250,000 and no annual aggregate. The estimate of claims incurred but not reported for employee health benefit programs are recorded as a liability by the Parent, with the appropriate expense allocated to the Corporation.

Litigation

A contractor of the State of Indiana previously conducted certain audits related to documentation supporting claims billed under the MRO. The Corporation has engaged legal counsel and has filed a request for an administrative appeal for the audit findings. Management has included a related provision of approximately \$338,000 and \$397,000 as part of estimated third-party settlements on the accompanying consolidated statements of financial position as of June 30, 2018 and 2017, respectively.

CENTERSTONE OF INDIANA, INC.

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

Guarantee

The Corporation is a guarantor, along with certain other affiliated entities to a loan issued to the Parent in the original amount of approximately \$6,265,000 maturing on May 31, 2022, with approximate monthly payments of \$26,102 and an interest rate of LIBOR plus 2.5% (4.5% at June 30, 2018). The balance outstanding was approximately \$4,437,000 and \$4,750,000 as of June 30, 2018 and 2017, respectively. This loan is collateralized with certain buildings and real estate.

The Corporation is also a guarantor with certain other affiliated entities to a revolving promissory note issued to the Parent in the amount of \$5,000,000 which matures on December 31, 2018. The Parent had no borrowings outstanding on the line of credit as of June 30, 2018 and 2017. The line of credit is collateralized with buildings, real estate, and accounts receivable.

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

Health care industry

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

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

Health care reform

The health care industry in the United States is subject to fundamental changes due to ongoing health care reform efforts and related political, economic and regulatory influences. Notably, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "Affordable Care Act") resulted in expanded health care coverage to millions of previously uninsured people beginning in 2014 and has resulted in significant changes to the U.S. health care system. To help fund this expansion, the Affordable Care Act outlines certain reductions in Medicare reimbursements for various health care providers as well as certain other changes to Medicare payment methodologies. This comprehensive health care legislation has resulted and will continue to result in extensive rulemaking by regulatory authorities, and also may be altered, amended, repealed, or replaced.

It is difficult to predict the full impact of the Affordable Care Act due to the complexity of the law and implementing regulations, as well the Corporation's inability to foresee how CMS and other participants in the health care industry will respond to the choices available to them under the law. The Corporation also cannot accurately predict whether any new or pending legislative proposals will be adopted or, if adopted, what effect, if any, these proposals would have on the Corporation's business. Similarly, while the Corporation can anticipate that some of the rulemaking that will be promulgated by regulatory authorities will affect the Corporation's business and the manner in which the Corporation is reimbursed by the federal health care programs, the Corporation cannot accurately predict today the impact of those regulations on the Corporation's business. The provisions of the legislation and other regulations implementing the provisions of the Affordable Care Act or any amended or replacement legislation may increase costs, decrease revenues, expose the Corporation to expanded liability or require the Corporation to revise the ways in which it conducts business.

CENTERSTONE OF INDIANA, INC.

Consolidating Statements of Financial Position

June 30, 2018

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Johnson Nichols Health Clinic, Inc.	Independent Living Alternatives, Inc.	Supportive Housing, LLC	Eliminations	Total
<u>Assets</u>							
Current assets:							
Cash and cash equivalents	\$ 2,366,778	\$ 682,201	\$ 5,553	\$ 154,517	\$ 349,561	\$ -	\$ 3,558,610
Accounts receivable, net	4,581,886	-	-	16,735	-	-	4,598,621
Other receivables	4,771,509	8,866	52,707	-	8,611	(16,844)	4,824,849
Due from affiliated entities	2,924,960	-	-	-	-	(306,517)	2,618,443
Unconditional promises to give, net	-	294,261	-	-	-	-	294,261
Prepaid expenses and other current assets	186,256	-	-	1,083	-	-	187,339
Total current assets	14,831,389	985,328	58,260	172,335	358,172	(323,361)	16,082,123
Property and equipment, net	16,831,948	-	-	260,869	7,499,237	-	24,592,054
Other assets	52,405	-	-	-	-	-	52,405
Unconditional promises to give, net	-	59,782	-	-	-	-	59,782
Beneficial interest	-	1,337,837	-	-	-	-	1,337,837
Assets whose use is limited	200,662	9,248,032	-	-	-	-	9,448,694
Total assets	\$ 31,916,404	\$ 11,630,979	\$ 58,260	\$ 433,204	\$ 7,857,409	\$ (323,361)	\$ 51,572,895
<u>Liabilities and net assets (deficit)</u>							
Current liabilities:							
Current portion of long-term debt	\$ 435,804	\$ -	\$ -	\$ 15,100	\$ 499,083	\$ -	\$ 949,987
Accounts payable and accrued expenses	957,800	13,941	-	21,081	60,647	(16,844)	1,036,625
Estimated third-party settlements	602,466	-	-	-	-	-	602,466
Due to affiliated entities	-	2,580,555	306,517	-	-	(306,517)	2,580,555
Accrued payroll, benefits and taxes	2,337,443	10,695	-	-	-	-	2,348,138
Total current liabilities	4,333,513	2,605,191	306,517	36,181	559,730	(323,361)	7,517,771
Long-term debt, excluding current portion, net of deferred financing costs	1,831,857	-	-	432,369	5,143,667	-	7,407,893
Other long-term liabilities	22,396	-	-	-	400,000	-	422,396
Agency liabilities	-	-	-	-	-	-	-
Total liabilities	6,187,766	2,605,191	306,517	468,550	6,103,397	(323,361)	15,348,060
Net assets (deficit):							
Unrestricted	25,728,638	3,297,698	(248,257)	(35,346)	1,754,012	-	30,496,745
Temporarily restricted	-	22,983	-	-	-	-	22,983
Permanently restricted	-	5,705,107	-	-	-	-	5,705,107
Total net assets (deficit)	25,728,638	9,025,788	(248,257)	(35,346)	1,754,012	-	36,224,835
Total liabilities and net assets	\$ 31,916,404	\$ 11,630,979	\$ 58,260	\$ 433,204	\$ 7,857,409	\$ (323,361)	\$ 51,572,895

See accompanying independent auditors' report

CENTERSTONE OF INDIANA, INC.

Consolidating Statements of Activities and Changes in Net Assets

Year ended June 30, 2018

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Johnson Nichols Health Clinic, Inc.	Independent Living Alternatives, Inc.	Supportive Housing, LLC	Eliminations	Total
Revenue and other support:							
Net client service revenue	\$ 38,334,193	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38,334,193
Provision for bad debts	(704,412)	-	-	-	-	-	(704,412)
Net client service revenue less provision for bad debts	37,629,781	-	-	-	-	-	37,629,781
Public support	27,655,843	-	160,195	-	831,513	-	28,647,551
Other revenue	5,382,549	-	-	149,024	-	(47,862)	5,483,711
Total revenue and other support	70,668,173	-	160,195	149,024	831,513	(47,862)	71,761,043
Expenses:							
Salary and fringe benefits	49,267,105	-	46,648	-	-	-	49,313,753
Telephone	940,334	-	-	-	-	-	940,334
Travel	2,834,610	-	-	-	-	-	2,834,610
Drugs and supplies	1,485,148	-	-	-	-	-	1,485,148
Contracted services	2,526,770	-	-	-	-	-	2,526,770
Purchased services	117,865	-	-	39,587	45,935	(25,700)	177,687
Utilities	751,372	-	-	8,735	109,539	-	869,646
Repairs and maintenance	790,185	-	-	15,187	113,930	-	919,302
Affiliated management fees	9,451,137	39,715	-	-	22,162	(22,162)	9,490,852
Rents and leases	2,314,012	-	-	-	-	-	2,314,012
Depreciation and amortization	999,310	-	-	9,957	226,735	-	1,236,002
Insurance	435,919	-	-	4,018	19,272	-	459,209
Interest	85,835	-	-	41,857	-	-	127,692
Miscellaneous	478,881	-	44,716	-	-	-	523,597
Total expenses	72,478,483	39,715	91,364	119,341	537,573	(47,862)	73,218,614
Operating gain (loss)	(1,810,310)	(39,715)	68,831	29,683	293,940	-	(1,457,571)

See accompanying independent auditors' report

CENTERSTONE OF INDIANA, INC.

Consolidating Statements of Activities and Changes in Net Assets

Year ended June 30, 2018

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Johnson Nichols Health Clinic, Inc.	Independent Living Alternatives, Inc.	Supportive Housing, LLC	Eliminations	Total
Nonoperating revenues (expenses):							
Foundation related expenses	-	(2,939,060)	-	-	-	-	(2,939,060)
Contributions and pledges	-	2,050,959	-	-	-	-	2,050,959
Realized gain on investments	-	900,741	-	-	-	-	900,741
Unrealized loss on investments	-	(243,250)	-	-	-	-	(243,250)
Interest and dividends	767	138,045	-	-	-	-	138,812
Loss on disposal of assets	(25,105)	-	-	-	-	-	(25,105)
Other	(14,757)	145,080	(4,680)	(46)	-	-	125,597
Total nonoperating revenues (expenses)	(39,095)	52,515	(4,680)	(46)	-	-	8,694
Excess of revenue over (under) expenses	(1,849,405)	12,800	64,151	29,637	293,940	-	(1,448,877)
Other changes in unrestricted net assets:							
Contributions to supported entities	-	(1,609,166)	-	-	-	-	(1,609,166)
Net assets released from restrictions	-	1,609,166	-	-	-	-	1,609,166
Total other changes in unrestricted net assets	-	-	-	-	-	-	-
Change in unrestricted net assets	(1,849,405)	12,800	64,151	29,637	293,940	-	(1,448,877)
Change in temporarily restricted net assets:							
Contributions and pledges	-	723,877	-	-	-	-	723,877
Change in value of beneficial interest	-	24,311	-	-	-	-	24,311
Net assets released from restriction	-	(1,609,166)	-	-	-	-	(1,609,166)
Change in temporarily restricted net assets	-	(860,978)	-	-	-	-	(860,978)
Change in permanently restricted net assets:							
Contributions	-	60,000	-	-	-	-	60,000
Change in permanently restricted net assets	-	60,000	-	-	-	-	60,000
Change in net assets	(1,849,405)	(788,178)	64,151	29,637	293,940	-	(2,249,855)
Net assets (deficit) at beginning of year	27,578,043	9,813,966	(312,408)	(64,983)	1,460,072	-	38,474,690
Net assets (deficit) at end of year	<u>\$ 25,728,638</u>	<u>\$ 9,025,788</u>	<u>\$ (248,257)</u>	<u>\$ (35,346)</u>	<u>\$ 1,754,012</u>	<u>\$ -</u>	<u>\$ 36,224,835</u>

See accompanying independent auditors' report

CENTERSTONE OF INDIANA, INC.

Consolidating Statements of Financial Position

June 30, 2017

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Johnson Nichols Health Clinic, Inc.	Independent Living Alternatives, Inc.	Supportive Housing, LLC	Eliminations	Total
Assets							
Current assets:							
Cash and cash equivalents	\$ 7,446,626	\$ 681,680	\$ 69,601	\$ 153,982	\$ 359,181	\$ -	\$ 8,711,070
Accounts receivable, net	4,406,630	-	-	79	-	-	4,406,709
Other receivables	3,725,136	22,295	41,665	-	-	(70,705)	3,718,391
Due from affiliated entities	3,045,697	15,159	-	-	-	(306,517)	2,754,339
Unconditional promises to give, net	-	185,105	-	-	-	-	185,105
Prepaid expenses and other current assets	195,820	-	-	570	9,979	-	206,369
Total current assets	18,819,909	904,239	111,266	154,631	369,160	(377,222)	19,981,983
Property and equipment, net	15,490,603	-	-	260,983	7,691,625	-	23,443,211
Other assets	49,100	-	-	-	-	-	49,100
Unconditional promises to give, net	-	134,964	-	-	-	-	134,964
Beneficial interest	-	1,313,526	-	-	-	-	1,313,526
Assets whose use is limited	200,461	8,774,674	-	-	-	-	8,975,135
Total assets	\$ 34,560,073	\$ 11,127,403	\$ 111,266	\$ 415,614	\$ 8,060,785	\$ (377,222)	\$ 53,897,919
Liabilities and net assets (deficit)							
Current liabilities:							
Current portion of long-term debt	\$ 435,804	\$ -	\$ -	\$ 16,844	\$ 499,083	\$ -	\$ 951,731
Accounts payable and accrued expenses	860,508	12,820	10,957	12,444	58,880	(70,705)	884,904
Estimated third-party settlements	1,009,193	-	-	-	-	-	1,009,193
Due to affiliated entities	-	1,256,685	306,517	-	-	(306,517)	1,256,685
Accrued payroll, benefits and taxes	2,353,557	9,256	106,200	3,450	-	-	2,472,463
Total current liabilities	4,659,062	1,278,761	423,674	32,738	557,963	(377,222)	6,574,976
Long-term debt, excluding current portion, net of deferred financing costs	2,261,381	-	-	447,859	5,642,750	-	8,351,990
Other long-term liabilities	61,587	-	-	-	400,000	-	461,587
Agency liabilities	-	34,676	-	-	-	-	34,676
Total liabilities	6,982,030	1,313,437	423,674	480,597	6,600,713	(377,222)	15,423,229
Net assets (deficit):							
Unrestricted	27,578,043	3,284,898	(312,408)	(64,983)	1,460,072	-	31,945,622
Temporarily restricted	-	883,961	-	-	-	-	883,961
Permanently restricted	-	5,645,107	-	-	-	-	5,645,107
Total net assets (deficit)	27,578,043	9,813,966	(312,408)	(64,983)	1,460,072	-	38,474,690
Total liabilities and net assets	\$ 34,560,073	\$ 11,127,403	\$ 111,266	\$ 415,614	\$ 8,060,785	\$ (377,222)	\$ 53,897,919

See accompanying independent auditors' report

CENTERSTONE OF INDIANA, INC.

Consolidating Statements of Activities and Changes in Net Assets

Year ended June 30, 2017

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Johnson Nichols Health Clinic, Inc.	Independent Living Alternatives, Inc.	Supportive Housing, LLC	Eliminations	Total
Revenue and other support:							
Net client service revenue	\$ 34,569,320	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,569,320
Provision for bad debts	(859,558)	-	-	-	-	-	(859,558)
Net client service revenue less provision for bad debts	33,709,762	-	-	-	-	-	33,709,762
Public support	26,214,668	-	867,660	-	827,237	-	27,909,565
Other revenue	4,742,308	-	-	148,068	-	(10,655)	4,879,721
Total revenue and other support	64,666,738	-	867,660	148,068	827,237	(10,655)	66,499,048
Expenses:							
Salary and fringe benefits	42,303,666	-	561,161	-	-	-	42,864,827
Telephone	859,717	-	-	-	-	-	859,717
Travel	2,437,062	-	-	-	-	-	2,437,062
Drugs and supplies	1,181,711	-	-	-	-	-	1,181,711
Contracted services	2,063,007	-	-	-	-	-	2,063,007
Purchased services	151,888	-	-	10,655	75,026	(10,655)	226,914
Utilities	664,922	-	-	5,751	115,032	-	785,705
Repairs and maintenance	667,440	-	-	6,576	151,431	-	825,447
Affiliated management fees	8,701,715	-	-	-	20,013	(20,013)	8,701,715
Rents and leases	2,080,318	-	-	-	-	-	2,080,318
Depreciation and amortization	978,162	-	-	7,582	226,735	-	1,212,479
Insurance	367,870	-	-	2,556	18,444	-	388,870
Interest	95,508	-	-	44,041	-	-	139,549
Miscellaneous	745,732	-	585,985	-	-	-	1,331,717
Total expenses	63,298,718	-	1,147,146	77,161	606,681	(30,668)	65,099,038
Operating gain (loss)	1,368,020	-	(279,486)	70,907	220,556	20,013	1,400,010

See accompanying independent auditors' report

CENTERSTONE OF INDIANA, INC.

Consolidating Statements of Activities and Changes in Net Assets

Year ended June 30, 2017

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Johnson Nichols Health Clinic, Inc.	Independent Living Alternatives, Inc.	Supportive Housing, LLC	Eliminations	Total
Nonoperating revenues (expenses):							
Foundation related expenses	\$ -	\$ (1,112,881)	\$ -	\$ -	\$ -	\$ -	\$ (1,112,881)
Contributions and pledges	-	685,844	-	-	-	-	685,844
Realized loss on investments	-	1,539,316	-	-	-	-	1,539,316
Unrealized loss on investments	-	(607,653)	-	-	-	-	(607,653)
Interest and dividends	758	131,285	-	-	-	-	132,043
Other	(70,413)	301,052	-	(1,002)	-	(20,013)	209,624
Total nonoperating revenues (expenses)	<u>(69,655)</u>	<u>936,963</u>	<u>-</u>	<u>(1,002)</u>	<u>-</u>	<u>(20,013)</u>	<u>846,293</u>
Excess of revenues over (under) expenses	1,298,365	936,963	(279,486)	69,905	220,556	-	2,246,303
Other changes in unrestricted net assets:							
Contributions to supported entities	-	(2,209,302)	-	-	-	-	(2,209,302)
Net assets released from restrictions	-	2,209,302	-	-	-	-	2,209,302
Total other changes in unrestricted net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in unrestricted net assets	<u>1,298,365</u>	<u>936,963</u>	<u>(279,486)</u>	<u>69,905</u>	<u>220,556</u>	<u>-</u>	<u>2,246,303</u>
Change in temporarily restricted net assets:							
Contributions and pledges	-	830,578	-	-	-	-	830,578
Change in value of beneficial interest	-	82,810	-	-	-	-	82,810
Net assets released from restriction	-	(2,209,302)	-	-	-	-	(2,209,302)
Change in temporarily restricted net assets	<u>-</u>	<u>(1,295,914)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,295,914)</u>
Change in net assets	1,298,365	(358,951)	(279,486)	69,905	220,556	-	950,389
Net assets (deficit) at beginning of year	26,279,678	10,172,917	(32,922)	(134,888)	1,239,516	-	37,524,301
Net assets (deficit) at end of year	<u>\$ 27,578,043</u>	<u>\$ 9,813,966</u>	<u>\$ (312,408)</u>	<u>\$ (64,983)</u>	<u>\$ 1,460,072</u>	<u>\$ -</u>	<u>\$ 38,474,690</u>

See accompanying independent auditors' report

CENTERSTONE OF AMERICA, INC.

Consolidated Single Audit Report

June 30, 2018

LBMC

**MAKE A GOOD
BUSINESS BETTER**

CENTERSTONE OF AMERICA, INC.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Schedule of Expenditures of Federal Awards

We have audited the accompanying consolidated schedule of expenditures of federal awards of Centerstone of America, Inc. and subsidiaries for the year ended June 30, 2018, and the related notes (the "financial statement").

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on this consolidated financial statement based on our audit. We conducted our audit 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 the audit requirements of 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 the consolidated financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statement referred to above presents fairly, in all material respects, the expenditures of federal awards of Centerstone of America, Inc. and subsidiaries for the year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

LBMC, PC

Brentwood, Tennessee
November 28, 2018

**INDEPENDENT AUDITORS' REPORT 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**

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

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, the consolidated financial statements of Centerstone of America, Inc. and subsidiaries (collectively, the "Corporation"), which comprise the consolidated statement of financial position as of June 30, 2018, 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 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Corporation'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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's 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 Corporation's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

LBMC, PC

Brentwood, Tennessee
November 28, 2018

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

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

Report on Compliance for Each Major Federal Program

We have audited Centerstone of America, Inc. and subsidiaries (collectively, the "Corporation") 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 Corporation's major federal programs for the year ended June 30, 2018. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation'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 the audit requirements of 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 Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Corporation 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, 2018.

Report on Internal Control Over Compliance

Management of the Corporation 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 Corporation'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 Corporation'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.

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

LBMC, PC

Brentwood, Tennessee
November 28, 2018

CENTERSTONE OF AMERICA, INC.

**Schedule of Expenditures of Federal Awards
Year ended June 30, 2018**

U.S. Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
Centerstone of Indiana, Inc.:			
U.S. Department of Agriculture			
Special Supplemental Nutrition Program for WIC - Passed			
through the Indiana State Department of Health	10.557	182IN002W1003, 172IN012W5003	\$ 520,958
U.S. Department of Housing and Urban Development			
Supportive Housing Program	14.235	N/A	320,374
Shelter Plus Care - Passed through the Indiana Housing and Community Development Authority	14.238	N/A	3,221
Total U.S. Department of Housing and Urban Development			323,595
U.S. Department of Veteran's Affairs			
VA Supportive Services for Veteran Families Programs	64.033	XIII 006	15,246
U.S. Department of Health and Human Services			
Passed through the Indiana Division of Mental Health			
Administration for Children and Families Grant	93.086	90FK0102-01-00	1,549,938
Projects for Assistance in Transition from Homelessness (PATH)	93.150	N/A	76,305
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	15SM62225A, 15SP21203A, 15T125696A, 15T126257A	1,329,717
Social Services Block Grant	93.667	1702INSOSR	461,216
Block Grants for Community Mental Health Services	93.958	3B09SM010019-17S1	538,662
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2B08TI010019-17S1	2,240,068
Total U.S. Department of Health and Human Services			6,195,906
Total Centerstone of Indiana, Inc.			\$ 7,055,705
Centerstone of Tennessee, Inc.:			
U.S. Department of Labor			
Employment and Training Administration Reintegration of Ex-Offenders	17.270	YF-29323-16-60-A-47	\$ 1,373,060
U.S. Department of Veteran's Affairs			
VA Supportive Services for Veteran Families Program	64.033	2012-ZZ-070	2,188,948
VA Supportive Services for Veteran Families Program	64.033	C15-TN-504A	481,813
VA Supportive Services for Veteran Families Program	64.033	2018-TN-403	497,788
Total U.S. Department of Veteran's Affairs			3,168,549
U.S. Department of Education			
School Based MH Liaison - Passed through State of TN	84.027	54725	102,028

During the year ended June 30, 2018, the Corporation did not provide any federal awards to subrecipients. See accompanying notes to schedule of expenditures of federal awards.

CENTERSTONE OF AMERICA, INC.

Schedule of Expenditures of Federal Awards (continued)
Year ended June 30, 2018

U.S. Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. Department of Health and Human Services			
Passed through the State of Tennessee, Department of			
Mental Health and Substance Abuse Services			
Therapeutic Intervention	93.087	51778	266,584
Treatment and Recovery for Youth (TRY)	93.243	51365	209,089
Tennessee Lives Count - Connect	93.243	56907	336,687
Tennessee Lives Count - Connect	93.243	51387	136,235
TARGET Zero	93.764	51388	111,631
TARGET Zero Suicide 2	93.243	56911	224,930
Better Attitudes and Skills in Children (B.A.S.I.C.)	93.958	54742	243,458
Community Targeted Transitional Support (ILA)	93.958	55030	110,000
Regional Intervention Program	93.958	54726	291,040
Older Adult Program	93.958	54571	58,143
TN Prevention Network	93.959	53539	195,000
Total passed through the State of Tennessee, Department of Mental Health and Substance Abuse Services			<u>2,182,797</u>
REAL Lives	93.243	5H79TI024330	290,299
Health Home (Integrated Care)	93.243	5H79SM062227	394,918
Enhanced Follow-Up Project	93.243	1U79SM063279	111,507
Centerstone Interactive Recover (I-Recover)	93.243	5H79TI026491	277,049
CHAT	93.243	1H79SP021693	178,034
eRecovery	93.243	SM 061670	273,951
Be in Charge 2	93.297	TP1AH000081	1,986,298
Healthy Start	93.926	H49MC27830	606,758
Passed through the State of Tennessee, Department of Health			
Healthy Families Phase 1			
Healthy Families Phase 1	93.505	51357	99,285
Healthy Families Phase 2	93.505	GR1649089	139,760
Evidence-Based Home Visitation Services	93.870	55830	633,628
Total passed through the State of Tennessee, Department of Health			<u>872,673</u>
Total U.S. Department of Health and Human Services			
			<u>7,174,284</u>
Total Centerstone of Tennessee, Inc.			
			<u>\$ 11,817,921</u>
Centerstone of Illinois, Inc.:			
U.S. Department of Labor			
Training to Work - Adult Reentry			
Training to Work - Adult Reentry	17.270	PE-27385-15-60-A-17	\$ 405,550
U.S. Department of Housing and Urban Development			
Continuum of Care Grant			
Continuum of Care Grant	14.267	IL0049L5T041609	280,995
U.S. Department of Health and Human Services			
Passed through the Illinois Department of Health and Human Services			
Substance Abuse and Mental Health Services Grant			
Substance Abuse and Mental Health Services Grant	93.243	266464900	110,000
Social Services Block Grant	93.667	807624900	141,977
Community Mental Health Services Block Grant	93.958	22876440A	719,094
Substance Abuse Prevention and Treatments Block Grants	93.959	251034400 and 260134400	539,366
Total passed through the Illinois Department of Human Services			<u>1,510,437</u>

During the year ended June 30, 2018, the Corporation did not provide any federal awards to subrecipients. See accompanying notes to schedule of expenditures of federal awards.

CENTERSTONE OF AMERICA, INC.

Schedule of Expenditures of Federal Awards (continued)
Year ended June 30, 2018

<u>U.S. Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>Federal Expenditures</u>
Substance Abuse and Mental Health Services Grant	93.243	1H79SM062235-01	422,470
Early Head Start	93.600	05CH8444/02, 05CH8444/03	691,411
Age Smart	93.052	3 E Caregiver Counseling	36,000
Total U.S. Department of Health and Human Services			<u>2,660,318</u>
Total Centerstone of Illinois, Inc.			<u>\$ 3,346,863</u>
 Centerstone of Florida, Inc.:			
U.S. Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants -			
Passed through Manatee County	14.218	B-16-UC-12-0018	<u>\$ 319,318</u>
 U.S. Department of Justice			
Passed through the State of Florida Office of Attorney General			
Crime Victim Assistance	16.575	VOCA-2016-Centerstone I-00797	53,353
Crime Victim Assistance	16.575	VOCA-2017-Centerstone I-00372	165,069
Total passed through the State of Florida Office of Attorney General			<u>218,422</u>
Passed through Manatee County			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016 DJ-BX 0345	36,804
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2017 JAGC, MANA-2 F9 042	12,617
Total passed through Manatee County			<u>49,421</u>
Total U.S. Department of Justice			<u>267,843</u>
 U.S. Department of Health and Human Services			
Substance Abuse and Mental Health Services Projects of Regional and National Significance			
93.243	93.243	1U79SM063055-01	446,837
 Passed through the Central Florida Behavioral Health Network			
Temporary Assistance to Needy Families	93.558	QB026-16	79,338
Block Grants for Community Mental Health Services	93.958	QB026-17	8,005,013
Block Grants for Community Mental Health Services	93.958	RC026-17	1,371
Block Grants for Prevention and Treatment of Substance Abuse	93.959	QB026-17	3,598,645
Medical Assistance Program	93.778	QB026-17	235,096
Medical Assistance Program	93.778	RC026-17	41,629
SA&MH Services - Projects of Regional & National	93.243	QB026-17	24,998
Comprehensive Community Mental Health	93.104	QB026-17	204,545
Crisis Counseling	97.032	PD204	1,470
State Targeted Response to the Opioid Crisis Grants	93.788	QB026-17	301,658
Total passed through the Central Florida Behavioral Health Network			<u>12,493,763</u>
Total U.S. Department of Health and Human Services			<u>12,940,600</u>
Total Centerstone of Florida, Inc.			<u>\$ 13,527,761</u>

During the year ended June 30, 2018, the Corporation did not provide any federal awards to subrecipients. See accompanying notes to schedule of expenditures of federal awards.

CENTERSTONE OF AMERICA, INC.

Schedule of Expenditures of Federal Awards (continued)
Year ended June 30, 2018

U.S. Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
Centerstone of Kentucky, Inc.:			
U.S. Department of Agriculture			
Child and Adult Care Food Program - Passed through the Kentucky Department of Education	10.558	056-U38-999	\$ 20,979
U.S. Department of Housing and Urban Development			
Emergency Solutions Grant Program (ESG) Passed through the Louisville Metro Police Department	14.231	E-17-MC-21-0008	18,000
Supportive Housing Program	14.235	KY0058L4I011508	94,824
Total U.S. Department of Housing and Urban Development			<u>112,824</u>
U.S. Department of Justice			
Passed through the Louisville Metro Criminal Justice Commission			
Criminal and Juvenile Justice and Mental Health			
Collaboration Program	16.745	2014-MO-BX-0028	42,780
Second Chance Act Reentry Initiative	16.812	2015-RW-BX-0010	168,691
Total passed through the Louisville Metro Criminal Justice Commission			<u>211,471</u>
Total U.S. Department of Justice			<u>211,471</u>
U.S. Department of Transportation			
Passed through the Transit Authority of River City Common Ground TARC	20.513	N/A	64,459
U.S. Department of Health and Human Services			
Passed through the Kentucky Cabinet for Health and Family Services			
Projects for Assistance in Transition from			
Homelessness (PATH)	93.150	PON2-729-1700001526-2	100,000
Substance Abuse and Mental Health Services	93.243	PON2-729-1700001526-2	1,455,111
Community-Based Child Abuse Prevention Grants	93.590	PON2-736-1600001161-1	329,048
Social Services Block Grant - Crisis Center Hotline	93.667	PON2-736-1400001757	129,800
Medical Assistance Program - PASRR	93.778	PON2-729-1600000303-1	529,884
Block Grants for Community Mental Health Services	93.958	PON2-729-1700001526-2	998,327
Substance Abuse and Mental Health Services	93.788	PON20729-1700001526-2	502,128
Substance Abuse and Mental Health Services	93.788	PON2-729-1800000550-1	346,348
Block Grants for Prevention and Treatment of Substance Abuse	93.959	PON2-729-1700001526-2	3,699,019
Total passed through the Kentucky Cabinet for Health and Family Services			<u>8,089,665</u>
Substance Abuse and Mental Health Services - Passed through the University of Louisville Research Foundation	93.243	1U79SM063218-01	62,685
Phoenix Family Health Center	93.243	N/A	301,392
Drug Abuse and Addiction Research Programs - Passed through Dartmouth College	93.279	R01DA041416	163,758
Total U.S. Department of Health and Human Resources			<u>8,617,500</u>

During the year ended June 30, 2018, the Corporation did not provide any federal awards to subrecipients. See accompanying notes to schedule of expenditures of federal awards.

CENTERSTONE OF AMERICA, INC.

Schedule of Expenditures of Federal Awards (continued)

Year ended June 30, 2018

U.S. Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
Department of Veteran Affairs			
Drug-Free Communities Support Program Grants - Louisville Metro Alliance for Youth - Passed through Dartmouth College	93.276	5H79SP016378-07	125,000
Total Centerstone of Kentucky, Inc.			\$ 9,152,233
Centerstone Research Institute, Inc.:			
U.S. Department of Health and Human Services			
Passed through the State of Tennessee, Department of Mental Health and Substance Abuse Services			
Tennessee Cooperative Agreement TN-CABHI	93.243	52448	\$ 20,254
Tennessee Cooperative Agreement TN-CABHI Enhanced	93.243	52229	43,886
Healthy Transitions, Successful Futures	93.243	51566	24,525
Healthy Transitions, Successful Futures	93.243	56370	70,987
Systems of Care Across Tennessee (SOCAT)	93.104	54014	61,068
Systems of Care Across Tennessee (SOCAT)	93.243	56849	112,887
Total passed through the State of Tennessee, Department of Mental Health and Substance Abuse Services			333,607
Passed through the National Institute of Mental Health			
Standardized vs. Tailored IMBCD	93.242	BL-4631224-CRI	43,452
Standardized vs. Tailored IMBCD	93.242	BL-4631254-CRI	38,850
Total passed through the National Institute of Mental Health			82,302
Total U.S. Department of Health and Human Services			415,909
Total Centerstone Research Institute, Inc.			\$ 415,909
Advantage Behavioral Health:			
U.S. Department of Health and Human Services			
Passed through the State of Tennessee, Department of Mental Health and Substance Abuse Services			
Early Connection Network	93.243	47907	79,862
Total Advantage Behavioral Health			\$ 79,862
Total federal expenditures			\$ 45,396,254

During the year ended June 30, 2018, the Corporation did not provide any federal awards to subrecipients. See accompanying notes to schedule of expenditures of federal awards.

CENTERSTONE OF AMERICA, INC.

Schedule of Expenditures of Federal Awards (continued)
Year ended June 30, 2018

The schedule below is a summation of awards listed by Catalog of Federal Domestic Assistance (CFDA) number.

CFDA #	Total Expenditures
10.557	\$ 520,958
10.558	\$ 20,979
14.218	\$ 319,318
14.231	\$ 18,000
14.235	\$ 415,198
14.238	\$ 3,221
14.267	\$ 280,995
16.575	\$ 218,422
16.738	\$ 49,421
16.745	\$ 42,780
16.812	\$ 168,691
17.270	\$ 1,778,610
20.513	\$ 64,459
64.033	\$ 3,183,795
84.027	\$ 102,028
93.052	\$ 36,000
93.086	\$ 1,549,938
93.087	\$ 266,584
93.104	\$ 265,613
93.150	\$ 176,305
93.242	\$ 82,302
93.243	\$ 6,938,310
93.276	\$ 125,000
93.279	\$ 163,758
93.297	\$ 1,986,298
93.505	\$ 239,045
93.558	\$ 79,338
93.590	\$ 329,048
93.600	\$ 691,411
93.667	\$ 732,993
93.764	\$ 111,631
93.778	\$ 806,609
93.788	\$ 1,150,134
93.870	\$ 633,628
93.926	\$ 606,758
93.958	\$ 10,965,108
93.959	\$ 10,272,098
97.032	\$ 1,470
	\$ 45,396,254

During the year ended June 30, 2018, the Corporation did not provide any federal awards to subrecipients. See accompanying notes to schedule of expenditures of federal awards.

CENTERSTONE OF AMERICA, INC.

Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018

NOTE A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Centerstone of America, Inc. and subsidiaries (collectively, the "Corporation") under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Johnson Nichols, Inc. expensed approximately \$160,000 in federal awards which are not included in the Corporation's accompanying schedule of expenditures of federal awards for 2018.

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 Corporation has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C – Home Investments Partnership Program and Supportive Housing Program

The Corporation had the following grant advances outstanding as of June 30, 2018 from HOME Investment Partnerships Program through the Madison County Community Development and the Supportive Housing Program through the U.S. Department of Housing and Urban Development for the construction and renovation of a group home facility.

<u>Program</u>	<u>CFDA</u>	<u>Grant ID</u>	<u>Amount outstanding</u>
Madison Country Community Development – Home Investments Partnership Program	14.239	Theodoro Place – 2011	\$ 211,834
U.S. Department of Housing and Urban Development – Supportive Housing Program	14.235	IL01B204001	<u>356,650</u>
Total federal grant advances			<u>\$ 568,484</u>

Note D – Other

There were no federal awards expended in the form of non-cash assistance and there were no loan guarantees outstanding at year end.

CENTERSTONE OF AMERICA, INC.

**Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018**

NOTE E – Insurance

During the year ended June 30, 2018, the following insurance was in effect:

<u>Insurance type</u>	<u>Amount</u>
Professional liability	\$ 1,200,000
Commercial general liability	1,000,000
Commercial excess liability	10,000,000
Fiduciary liability	5,000,000
Directors' and officers' liability	11,000,000
Auto	1,000,000
Workers compensation	1,000,000
Commercial property	172,848,000
Employment practices liability	10,000,000

CENTERSTONE OF AMERICA, INC.

**Schedule of Findings and Questioned Costs
June 30, 2018**

Section I - Summary of Auditor's Results:

Financial Statements:

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes _____ X no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ 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 no

Significant deficiency(ies) identified _____ 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 200.516(a)]? _____ yes _____ X no

Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster
93.086	Health Marriage Promotion and Responsible Fatherhood Grants
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance
93.297	Teenage Pregnancy Prevention Program
93.958	Block Grants for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between type A and type B programs: \$1,361,888

Auditee qualified as low-risk auditee? _____ X yes _____ no

Section II - Financial Statement Findings:

No matters reported

Section III - Federal Award Findings and Questioned Costs:

No matters reported

Section IV - Summary Schedule of Prior Audit Findings:

No prior year findings reported