



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B55604

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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, 2018 to June 30, 2019. 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, 2019 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, 2019 and 2018

(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, 2019 and 2018, the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the statement of functional expenses for the year ended June 30, 2019, 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 \$8,009,000 and \$8,291,000 as of June 30, 2019 and 2018, respectively, and total revenues of approximately \$1,023,000 and \$981,000 for the years ended June 30, 2019 and 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *Guidelines for Examinations of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts. 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, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended and their functional expenses for the year ended June 30, 2019 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, cash flows and functional expenses of the Corporation. Our opinion is not modified with respect to this matter.

Report on Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental 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, cash flows and functional expenses of the individual companies, and are not a required part of the consolidated financial statements. The Schedule of Expenditures of State and Local Awards is required by the *Guidelines for Examinations of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it relates to the financial statements audited by other auditors is based on the reports of the other auditors, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report (as part of Centerstone of America, Inc.'s Consolidated Single Audit report) dated December 11, 2019 on our consideration of Centerstone of America, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Centerstone of America, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Centerstone of America, Inc.'s internal control over financial reporting and compliance.

LBMC, PC

Brentwood, Tennessee
December 11, 2019

CENTERSTONE OF INDIANA, INC.

Consolidated Statements of Financial Position

June 30, 2019 and 2018

	<u>Assets</u>	
	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 8,651,515	\$ 3,558,610
Accounts receivable, net	5,164,058	4,598,621
Other receivables	4,146,725	4,824,849
Due from affiliated entities	-	4,186,375
Unconditional promises to give, net	536,588	294,261
Prepaid expenses and other current assets	330,966	187,339
	<hr/>	<hr/>
Total current assets	18,829,852	17,650,055
Property and equipment, net	26,170,683	24,592,054
Other assets	54,931	52,405
Unconditional promises to give, net	108,607	59,782
Beneficial interest	1,335,768	1,337,837
Assets whose use is limited	9,327,131	9,448,694
	<hr/>	<hr/>
Total assets	\$ 55,826,972	\$ 53,140,827
	<hr/>	<hr/>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Current portion of long-term debt	\$ 714,183	\$ 949,987
Current portion of notes payable to related party	104,600	-
Accounts payable and accrued expenses	1,754,052	1,036,625
Estimated third-party settlements	627,183	602,466
Due to affiliated entities	2,526,111	2,556,468
Accrued payroll, benefits and taxes	3,501,242	3,940,157
	<hr/>	<hr/>
Total current liabilities	9,227,371	9,085,703
Long-term debt, excluding current portion, net of deferred financing costs	5,627,203	7,407,893
Notes payable to related party, excluding current portion	3,601,985	-
Other long-term liabilities	400,000	422,396
	<hr/>	<hr/>
Total liabilities	18,856,559	16,915,992
	<hr/>	<hr/>
Net assets:		
Without donor restrictions	31,465,419	30,496,745
With donor restrictions	5,504,994	5,728,090
	<hr/>	<hr/>
Total net assets	36,970,413	36,224,835
	<hr/>	<hr/>
Total liabilities and net assets	\$ 55,826,972	\$ 53,140,827
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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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenue and other support:		
Net client service revenue	\$ 48,738,156	\$ 40,809,742
(Provision for) recoveries of bad debts	204,452	(704,412)
Net client service revenue less (provision for) recoveries of bad debts	48,942,608	40,105,330
Public support	28,945,321	28,647,551
Affiliated management fees	1,264,348	-
Other revenue	3,679,316	3,008,162
Total revenue and other support	82,831,593	71,761,043
Expenses:		
Salary and fringe benefits	55,924,144	50,078,165
Professional fees	2,846,358	2,677,927
Facilities and equipment	4,878,278	4,391,366
Depreciation and amortization	1,337,881	1,236,002
Travel and transportation	2,119,064	2,115,593
Supplies	1,461,586	1,415,351
Communications	927,497	949,463
Affiliated management fees	11,121,518	9,490,852
Interest	220,648	121,062
Miscellaneous	3,964,324	3,681,893
Total expenses	84,801,298	76,157,674
Operating loss	(1,969,705)	(4,396,631)

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Nonoperating revenues (expenses):		
Contributions and pledges	2,458,069	2,050,959
Realized gain on investments	438,229	900,741
Unrealized loss on investments	(218,309)	(243,250)
Interest and dividends	158,598	138,812
Gain (loss) on disposal of assets	500	(25,105)
Other	(46,504)	125,597
Total nonoperating revenues	2,790,583	2,947,754
Excess of revenues over expenses (expenses over revenues)	820,878	(1,448,877)
Other changes in net assets without donor restrictions:		
Contributions to supported entities	(219,273)	(1,609,166)
Net assets released from restrictions	367,069	1,609,166
Total other changes in net assets without donor restrictions	147,796	-
Change in net assets without donor restrictions	968,674	(1,448,877)
Change in net assets with donor restrictions:		
Contributions and pledges	143,973	783,877
Change in value of beneficial interest	-	24,311
Net assets released from restriction	(367,069)	(1,609,166)
Change in net assets with donor restrictions	(223,096)	(800,978)
Change in net assets	745,578	(2,249,855)
Net assets at beginning of year	36,224,835	38,474,690
Net assets at end of year	\$ 36,970,413	\$ 36,224,835

See accompanying notes to the consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating activities:		
Change in net assets	\$ 745,578	\$ (2,249,855)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
(Gain) loss on the disposal of assets	(500)	25,105
Public support - debt forgiveness	(499,083)	(499,083)
Depreciation and amortization	1,337,881	1,236,002
Amortization of deferred financing costs	3,240	6,480
Provision for (recoveries of) bad debts	(204,452)	704,412
Unrealized loss on investments	218,309	243,250
Realized gain on sale of investments	(438,229)	(900,741)
In-kind contributions	(27,974)	-
Change in beneficial interest	2,069	(24,311)
Provisions for uncollectible and discount to net present value on promises to give	8,460	(228,732)
Restricted contributions and pledges	(143,973)	(783,877)
Changes in operating assets and liabilities		
Accounts receivable, net	(360,985)	(896,324)
Due to/from affiliates	4,156,018	1,459,766
Other receivables	678,124	(1,106,458)
Unconditional promises to give, net	(299,612)	194,758
Prepaid expenses and other assets	(146,153)	15,725
Accounts payable and accrued expenses	717,427	151,721
Estimated third-party settlements	24,717	(406,727)
Accrued payroll, benefits and taxes	(438,915)	(124,325)
Other long-term liabilities	(22,396)	(39,191)
Net cash provided (used) by operating activities	5,309,551	(3,222,405)
Investing activities:		
Purchase of property and equipment	(2,972,150)	(3,058,950)
Proceeds from the sale of property and equipment	56,140	649,000
Proceeds from the sale or maturity of investments	9,765,327	4,632,922
Purchases of investments	(9,596,532)	(4,448,990)
Change in agency liabilities	-	(34,676)
Net cash used by investing activities	(2,747,215)	(2,260,694)
Financing activities:		
Restricted contributions and pledges	143,973	783,877
Principal payments on long term debt	(1,520,651)	(453,238)
Proceeds from note payable to related party	3,706,585	-
Change in collateral savings account	200,662	-
Net cash provided by financing activities	2,530,569	330,639
 Increase (decrease) in cash and cash equivalents	 5,092,905	 (5,152,460)
Cash and cash equivalents at beginning of year	3,558,610	8,711,070
Cash and cash equivalents at end of year	\$ 8,651,515	\$ 3,558,610
Supplemental cash flows information:		
Cash paid for interest on long-term debt	\$ 66,792	\$ 121,212
Cash paid for interest on notes payable to related party	\$ 150,616	\$ -
Noncash financing activities:		
Indiana Housing and Community Development Authority debt forgiveness	\$ 499,083	\$ 499,083

See accompanying notes to the consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

Consolidated Statement of Functional Expenses

Year ended June 30, 2019

	Child Community Based Care	Adult Community Based Care	Psychiatric Medical & Counseling	Housing	Child Welfare	Other	Total Program Services	Management and General	Fundraising	Total
Expenses:										
Salary and fringe benefits	\$ 17,669,752	\$ 10,698,132	\$ 10,380,478	\$ 5,575,055	\$ 802,954	\$ 7,929,636	\$ 53,056,007	\$ 2,868,137	\$ -	\$ 55,924,144
Professional fees	4,006	116,397	447,738	14,708	1,398,167	738,598	2,719,614	125,419	1,325	2,846,358
Facilities and equipment	533,840	608,499	306,332	1,116,762	27,935	796,913	3,390,281	1,487,997	-	4,878,278
Depreciation and amortization	120,002	145,363	77,451	363,964	586	41,569	748,935	588,946	-	1,337,881
Travel and transportation	885,610	406,034	152,490	107,584	68,941	253,695	1,874,354	244,180	530	2,119,064
Supplies	223,612	384,200	129,424	534,568	5,638	149,889	1,427,331	33,731	524	1,461,586
Communications	288,091	193,353	68,401	105,616	12,909	84,126	752,496	175,004	(3)	927,497
Affiliated management fees	-	-	-	-	-	-	-	11,121,518	-	11,121,518
Interest	2,800	2,800	14,333	54,972	-	(49,202)	25,703	194,945	-	220,648
Miscellaneous	207,249	318,068	107,625	506,345	28,446	1,707,493	2,875,226	1,089,714	(616)	3,964,324
Total expenses	\$ 19,934,962	\$ 12,872,846	\$ 11,684,272	\$ 8,379,574	\$ 2,345,576	\$ 11,652,717	\$ 66,869,947	\$ 17,929,591	\$ 1,760	\$ 84,801,298

See accompanying notes to the consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

(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, 2019 and 2018

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: Military Services, Centerstone of Tennessee, Inc., Centerstone of Illinois, Inc., the Research Institute, 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:

Net assets without donor restrictions - Net assets that are not restricted by donor-imposed restrictions and available to support operations. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Corporation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

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

(d) **Cash and cash equivalents**

For purposes of reporting cash flows, the Corporation considers all liquid investments with an original maturity of three months or less to be cash equivalents. The Corporation 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 was approximately \$201,000. The funds consisted of cash. The debt was paid off in 2019 (see Note 17) and the related cash was no longer required to be set aside for debt service.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

(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.

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, 2019 and 2018 were approximately \$299,000 and \$287,000, 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, 2019 and 2018

Gifts of long-lived assets such as land, buildings, or equipment are reported as without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained; expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(j) 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.

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.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

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.

(k) 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 \$2,340,000 and \$2,190,000 as of June 30, 2019 and 2018, respectively.

Of the Corporation's total unrestricted operating expense reported pertaining to the entities providing client care, an estimated \$1,167,000 and \$1,056,000 arose from providing services to charity clients during the years ended June 30, 2019 and 2018, 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.

(l) 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.

(m) 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 2019 and 2018, the Corporation was paid by the State based upon applicable contractually agreed to stipulations.

CENTERSTONE OF INDIANA, INC.

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

(n) Contributions

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

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

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

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

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

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

(o) 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 \$144,000 and \$88,000 for 2019 and 2018, respectively.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

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(p) 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 2019 and 2018. 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, 2018. 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, 2019 and 2018, 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.

(q) 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 net assets without donor restrictions 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 contributions and pledges from donors and related parties, realized and unrealized gains (losses) on investments, interest and dividend income, gains (losses) on disposal of assets, and other non-operating income.

CENTERSTONE OF INDIANA, INC.

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(r) Adoption of new accounting pronouncement

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The Corporation adopted this ASU for the fiscal year ended June 30, 2019 and has applied the provisions retrospectively. As a result of the adoption, temporarily restricted net assets of \$22,983 and permanently restricted net assets of \$5,705,107 at June 30, 2018 were combined and are now referred to as net assets with donor restrictions to conform to this presentation.

(s) New accounting pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which will eliminate the transaction and industry-specific revenue recognition guidance under current GAAP and replace it with a principles-based approach. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The five step model defined by ASU 2014-09 requires the entity to: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The FASB has also issued several ASUs to provide entities further clarity on the application of ASU 2014-09. ASU 2014-09 additionally enhances the required disclosures surrounding the nature, amount, timing and uncertainty of revenues and the associated cash flows. ASU 2014-09 may be applied retrospectively to each period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). ASU 2014-09, as amended, is effective beginning July 1, 2019 and management of the Corporation is currently evaluating the impact adoption will have on its financial statements and disclosures.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"). ASU 2018-08 is intended to clarify (1) when transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of contribution accounting guidance, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. ASU 2018-08 is effective beginning July 1, 2019 and management of the Corporation is currently evaluating the impact adoption will have on its financial statements and disclosures.

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) Reclassifications

Certain information from 2018 has been reclassified to conform to the 2019 presentation. There is no effect on the consolidated change in net assets as a result of these reclassifications.

(v) Functional expenses

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

The Corporation provides behavioral healthcare services to residents within its geographic location. Expenses related to providing these services for 2018 includes \$63,694,405 and \$12,463,269 of program services and management and general services, respectively. The Corporation incurred fundraising expenses which are incorporated in nonoperating revenues and expenses in the accompanying consolidated financial statements of approximately \$2,939,000 for the year ended June 30, 2018.

(w) Events occurring after reporting date

The Corporation has evaluated events and transactions that occurred between June 30, 2019 and December 11, 2019, which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

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(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 \$627,000 and \$602,000 as of June 30, 2019 and 2018, 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:

	Receivables		Revenue	
	2019	2018	2019	2018
Medicare	2 %	3 %	2 %	3 %
Medicaid	79 %	79 %	80 %	74 %
Self-pay	2 %	4 %	1 %	3 %
Other third-party payors	17 %	14 %	17 %	20 %
	100 %	100 %	100 %	100 %

(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, 2019 and 2018. The following schedule summarizes the investment expenses and earnings.

	2019	2018
Beneficial interest in Community Foundation, beginning of year	\$ 1,337,837	\$ 1,313,526
Investment expenses	(8,425)	(9,116)
Investment gain	72,556	100,827
Grants paid out	(66,200)	(67,400)
Beneficial interest in Community Foundation, end of year	\$ 1,335,768	\$ 1,337,837

CENTERSTONE OF INDIANA, INC.

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Fair value of the beneficial interest is estimated as the net asset value ("NAV") of the underlying shares in the Community Foundation's investment pool. Fair value is determined in this manner because there are no observable market transactions for assets similar to the beneficial interest in the Agency Endowment Fund. Because there are no observable market transactions and because the Foundation can only redeem the resources at NAV for its own use, subject to the approval of the governing board of the Community Foundation, this fair value measurement is 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, 2019 and 2018 is set forth in the following table.

	<u>2019</u>	<u>2018</u>
Cash	\$ 91,207	\$ 269,814
Mutual funds	9,235,924	8,798,989
Exchange-traded funds	<u>-</u>	<u>379,891</u>
	<u>\$ 9,327,131</u>	<u>\$ 9,448,694</u>

(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.

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Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019 and 2018.

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

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, 2019 and 2018:

<u>Fair Value Measurements as of June 30, 2019 using the following inputs</u>				
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets whose use is limited				
Mutual funds				
Growth	\$ 3,413,708	\$ 3,413,708	\$ -	\$ -
Index	1,652,439	1,652,439	-	-
Value	652,539	652,539	-	-
International	445,419	445,419	-	-
Fixed income	<u>3,071,819</u>	<u>3,071,819</u>	<u>-</u>	<u>-</u>
	9,235,924	\$ <u>9,235,924</u>	\$ <u>-</u>	\$ <u>-</u>
Cash	<u>91,207</u>			
	<u>\$ 9,327,131</u>			
Beneficial interest - funds held by Community Foundation	<u>\$ 1,335,768</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,335,768</u>

CENTERSTONE OF INDIANA, INC.

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**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>	\$ -	\$ -
Cash	<u>269,814</u>			
	\$ <u>9,448,694</u>			
Beneficial interest - funds held by Community Foundation	\$ <u>1,337,837</u>	\$ -	\$ -	\$ <u>1,337,837</u>

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 2019 and 2018.

(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>2019</u>	<u>2018</u>
Promises receivable in less than one year	\$ 542,288	\$ 295,717
Promises receivable in one to five years	119,741	66,700
Less net present value discount	(16,834)	(8,374)
Less allowance for uncollectible pledges	<u>-</u>	<u>-</u>
	\$ <u>645,195</u>	\$ <u>354,043</u>

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Notes to the Consolidated Financial Statements

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(9) Property and equipment

A summary of property and equipment as of June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 2,216,776	\$ 2,216,776
Buildings and improvements	36,109,471	34,509,495
Furnishings, equipment and vehicles	4,260,434	3,359,602
Construction in progress	<u>745,525</u>	<u>246,892</u>
	43,332,206	40,332,765
Accumulated depreciation and amortization	<u>(17,161,523)</u>	<u>(15,740,711)</u>
	<u>\$ 26,170,683</u>	<u>\$ 24,592,054</u>

As of June 30, 2019 the Corporation has commitments for various property and equipment projects that approximate \$7,700,000 and relate to construction of a 50 unit low income housing project and remodeling of various group homes and are expected to be completed during 2020. The Corporation obtained financing subsequent to year end for the low income housing project.

(10) Liquidity and availability

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

Financial assets available for general expenditures within one year of the June 30, 2019 consolidated statement of financial position are as follows:

Cash and cash equivalents	\$ 8,651,515
Patient accounts receivable	5,164,058
Other receivables	4,146,725
Unconditional promises to give, net	<u>124,956</u>
	<u>\$ 18,087,254</u>

The remaining \$411,632 of unconditional promises to give included in current assets at June 30, 2019, contain specific donor restrictions that limit their use. As such, these have been excluded above.

None of the above assets are subject to donor or other restrictions. The unconditional promises to give excludes those which are subject to donor or other restrictions. The Parent also has a \$5,000,000 line of credit that could be utilized for the Corporation.

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Notes to the Consolidated Financial Statements

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(11) Long-term debt

A summary of long-term debt as of June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Mortgage payable to Indiana Housing & Community Development Authority, 0% interest, due 2026, forgiven over a 15 year period, collateralized by certain real estate.	\$ 5,142,667	\$ 5,642,750
Indiana Department of Finance Authority ("IDFA") Series 2002 variable rate demand economic development revenue bonds, variable interest rate of 1 month LIBOR (2.40% at June 30, 2019), \$200,000 redeemed on December 1st each year, final payment due December 2022, collateralized by certain real estate and accounts receivable.	800,000	1,000,000
Note payable to financial institution, variable interest rate of one month LIBOR plus 1.85%, 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. Paid in 2019 through note payable to related party (see Note 17).	-	926,043
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.	424,682	448,016

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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. Paid in 2019 through note payable to related party (see Note 17).	-	<u>370,274</u>
Total long-term debt	6,367,349	8,387,083
Less deferred financing costs	25,963	29,203
Less current portion	<u>714,183</u>	<u>949,987</u>
Long-term debt, excluding current portion	<u>\$ 5,627,203</u>	<u>\$ 7,407,893</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, 2019 is as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 714,183
2021	714,183
2022	714,183
2023	714,183
2024	514,183
2025 and later years	<u>2,996,434</u>
	<u>\$ 6,367,349</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.

Notes to the Consolidated Financial Statements

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(12) Net assets

The net assets with donor restrictions consist of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Military Services Executive Director Position	\$ -	\$ 22,983
Endowments	4,361,021	4,705,107
Beneficial Interest	1,000,000	1,000,000
Center for Clinical Excellence	125,992	-
Other	<u>17,981</u>	<u>-</u>
	<u>\$ 5,504,994</u>	<u>\$ 5,728,090</u>

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

Net assets with donor restrictions were released from restriction for the years ended June 30, 2019 and 2018 for the following purposes:

	<u>2019</u>	<u>2018</u>
Military Services Executive Director Position	\$ 22,983	\$ -
Endowment	344,086	-
Dede Wallace Campus	-	222,164
Research	<u>-</u>	<u>1,387,002</u>
	<u>\$ 367,069</u>	<u>\$ 1,609,166</u>

(13) 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.

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Specifically, the primary objective in the investment management for endowment fund assets shall be long-term growth of capital and to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index. The board of directors has interpreted the relevant law as requiring prudent preservation of the fund and evaluates the amounts of without donor restrictions income and the unrealized gains and losses periodically.

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

The endowment net assets by type of fund as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Donor-restricted endowment funds	\$ 4,361,021	\$ 4,705,107
Beneficial interest funds	<u>1,000,000</u>	<u>1,000,000</u>
Total endowment funds	<u>\$ 5,361,021</u>	<u>\$ 5,705,107</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 net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

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(14) 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 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Gross client service revenue	\$ 145,771,744	\$ 82,591,278
Less deductions:		
Charity care	(2,344,050)	(2,193,255)
Contractuals	<u>(94,689,538)</u>	<u>(39,588,281)</u>
Net client service revenue	48,738,156	40,809,742
Less (provision for) recoveries of bad debts	<u>204,452</u>	<u>(704,412)</u>
Net client service revenue less (provision for) recoveries of bad debts	<u>\$ 48,942,608</u>	<u>\$ 40,105,330</u>

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.

(15) Public support

The composition of public support during the years ended June 30, 2019 and 2018 is set forth in the following table.

	<u>2019</u>	<u>2018</u>
U.S. Department of Housing and Urban Development	\$ 332,809	\$ 317,549
Medicaid administrative outreach	3,183,858	2,954,065
Division of Mental Health	14,321,182	15,415,246
County funds	3,694,223	3,539,797
State Women Infant Children	531,062	520,958
Other public support	<u>6,882,187</u>	<u>5,899,936</u>
	<u>\$ 28,945,321</u>	<u>\$ 28,647,551</u>

CENTERSTONE OF INDIANA, INC.

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(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 \$823,000 and \$808,000 for 2019 and 2018, respectively.

(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 payable and receivable as of June 30, 2019 and 2019, respectively. For the years ended June 30, 2019 and 2019, the Corporation incurred affiliated management fees for services provided by its Parent which include finance, payroll, human resources, marketing, executive support, and other supporting services. The Foundation received affiliated management fees for services provided to the Supported Organizations. These fees are allocated to the Supported Organizations based on direct allocation of specific services provided to the Supported Organizations for fundraising events and as an allocation of total operating expenses of the Foundation, excluding contribution expense. For the years ended June 30, 2019 and 2019, the Corporation incurred malpractice and liability insurance coverage of approximately \$719,000 and \$436,000, respectively, which is paid by the Parent and then reimbursed by the Corporation.

During 2019, the Parent refinanced debt with a financial institution. Concurrent with the refinance, the Parent paid two of the Corporation's notes payable with financial institutions with balances of \$926,043 and \$370,274 at June 30, 2018. The Corporation entered into two notes payable with the Parent. The first note payable due to Parent was issued in the original amount of \$1,307,846 maturing on January 31, 2029, with monthly installments of \$9,682 and an interest rate of 6.41%. The balance outstanding was \$1,294,453 at June 30, 2019. The second note payable due to Parent was issued in the original amount of \$2,441,502 used for capital expenditures. The note matures on January 31, 2029, with monthly installments of \$16,207 and an interest rate of 5.07%. The balance outstanding was \$2,412,132 at June 30, 2019.

Aggregate annual maturities of notes payable to related party as of June 30, 2019 is as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 104,600
2021	111,147
2022	117,501
2023	124,224
2024	130,838
2025 and later years	<u>3,118,275</u>
	<u>\$ 3,706,585</u>

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

The Foundation is a supporting organization to the affiliated entities. The Foundation has a net related party payable as of June 30, 2019 and 2018. During 2019 and 2018, the Foundation contributed approximately \$1,144,000 and \$2,911,000, respectively, to supported entities. For the year ended June 30, 2019, the Foundation received affiliated management fees of approximately \$1,600,000 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 was recorded during June 30, 2019 and 2019.

The Corporation contracts with Red Oak Industries to provide cleaning services and has recorded associated fees in the approximate amount of \$217,000 and \$319,000 during June 30, 2019 and 2019, respectively.

(18) Commitments and contingencies

Operating leases

The Corporation leases various non-cancelable operating leases for facilities and equipment. Rent expense was approximately \$2,431,000 and \$2,314,000 in 2019 and 2018, respectively. A summary of approximate future minimum payments under these leases as of June 30, 2019 is as follows:

2020	\$	759,000
2021		346,000
2022		197,000
2023		77,000
2024		<u>7,300</u>
Total minimum lease payments	\$	<u>1,386,300</u>

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 2019.

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 \$1,007,000 and \$984,000 for the years ended June 30, 2019 and 2018, respectively, and is included in other revenue and rent expense in the accompanying consolidated statements of activities and changes in net assets.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

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, 2019 and 2018 approximated \$6,928,000 and \$5,185,000, respectively. The Corporation has purchased insurance, which limits its exposure on a per individual basis to \$300,000 and no annual aggregate. The estimate of claims incurred but not reported for employee health benefit programs are recorded as a liability by the Parent, with the appropriate expense allocated to the Corporation.

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 as part of estimated third-party settlements on the accompanying consolidated statements of financial position as of June 30, 2019 and 2018.

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.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

Guarantees

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%. The balance outstanding was approximately \$4,437,000 as of June 30, 2018. On January 31, 2019, the Parent refinanced the loan in the amount of \$29,000,000 including a \$15,000,000 taxable term loan that requires monthly principal and interest payments and bears interest at LIBOR plus the applicable margin for the taxable term loan (5.10% at June 30, 2019) and a \$14,000,000 tax-exempt term loan that requires monthly principal and interest payments and bears interest at LIBOR plus the applicable margin for the tax-exempt term loan (3.76% at June 30, 2019). The balance outstanding was approximately \$28,744,000 as of June 30, 2019. This loan is collateralized with certain buildings and real estate. The loan matures January 31, 2029.

The Corporation is also a guarantor with certain other affiliated entities to a revolving promissory note issued to the Parent in the amount of \$5,000,000 which matures on January 31, 2022. The Parent had no borrowings outstanding on the line of credit as of June 30, 2019 and 2018. 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.

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.

CENTERSTONE OF INDIANA, INC.

Notes to the Consolidated Financial Statements

June 30, 2019 and 2018

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 as 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 Statement of Financial Position

June 30, 2019

	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	\$ 7,391,766	\$ 688,143	\$ 16,039	\$ 191,505	\$ 364,062	\$ -	\$ 8,651,515
Accounts receivable, net	5,164,058	-	-	-	-	-	5,164,058
Other receivables	4,122,406	-	-	2,911	21,408	-	4,146,725
Unconditional promises to give, net	-	536,588	-	-	-	-	536,588
Prepaid expenses and other current assets	320,560	264	-	-	10,142	-	330,966
Total current assets	16,998,790	1,224,995	16,039	194,416	395,612	-	18,829,852
Property and equipment, net	18,751,655	-	-	181,012	7,238,016	-	26,170,683
Other assets	54,931	-	-	-	-	-	54,931
Unconditional promises to give, net	-	108,607	-	-	-	-	108,607
Beneficial interest	-	1,335,768	-	-	-	-	1,335,768
Assets whose use is limited	-	9,327,131	-	-	-	-	9,327,131
Total assets	\$ 35,805,376	\$ 11,996,501	\$ 16,039	\$ 375,428	\$ 7,633,628	\$ -	\$ 55,826,972
Liabilities and net assets (deficit)							
Current liabilities:							
Current portion of long-term debt	\$ 200,000	\$ -	\$ -	\$ 15,100	\$ 499,083	\$ -	\$ 714,183
Current portion of notes payable to related party	104,600	-	-	-	-	-	104,600
Accounts payable and accrued expenses	1,639,240	20,945	16,039	45,856	31,972	-	1,754,052
Estimated third-party settlements	627,183	-	-	-	-	-	627,183
Due to affiliated entities	951,363	1,574,748	-	-	-	-	2,526,111
Accrued payroll, benefits and taxes	3,430,765	70,477	-	-	-	-	3,501,242
Total current liabilities	6,953,151	1,666,170	16,039	60,956	531,055	-	9,227,371
Long-term debt, excluding current portion, net of deferred financing costs	574,038	-	-	409,582	4,643,583	-	5,627,203
Notes payable to related party, excluding current portion	3,601,985	-	-	-	-	-	3,601,985
Other long-term liabilities	-	-	-	-	400,000	-	400,000
Total liabilities	11,129,174	1,666,170	16,039	470,538	5,574,638	-	18,856,559
Net assets (deficit):							
Without donor restrictions	24,676,202	4,825,337	-	(95,110)	2,058,990	-	31,465,419
With donor restrictions	-	5,504,994	-	-	-	-	5,504,994
Total net assets (deficit)	24,676,202	10,330,331	-	(95,110)	2,058,990	-	36,970,413
Total liabilities and net assets	\$ 35,805,376	\$ 11,996,501	\$ 16,039	\$ 375,428	\$ 7,633,628	\$ -	\$ 55,826,972

See accompanying independent auditors' report.

CENTERSTONE OF INDIANA, INC.

Consolidating Statement of Activities and Changes in Net Assets

Year ended June 30, 2019

	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	\$ 48,738,156	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,738,156
(Provision for) recoveries of bad debts	204,452	-	-	-	-	-	204,452
Net client service revenue less provision for bad debts	48,942,608	-	-	-	-	-	48,942,608
Public support	28,072,887	-	-	-	872,434	-	28,945,321
Affiliated management fees	-	1,623,371	-	-	-	(359,023)	1,264,348
Other revenue	3,302,184	-	248,257	150,977	-	(22,102)	3,679,316
Total revenue and other support	80,317,679	1,623,371	248,257	150,977	872,434	(381,125)	82,831,593
Expenses:							
Salary and fringe benefits	54,964,527	959,617	-	-	-	-	55,924,144
Professional fees	2,809,397	36,961	-	-	-	-	2,846,358
Facilities and equipment	4,557,688	59,160	-	35,526	225,904	-	4,878,278
Depreciation and amortization	1,089,364	-	-	17,424	231,093	-	1,337,881
Travel and transportation	2,071,105	47,959	-	-	-	-	2,119,064
Supplies	1,448,165	13,421	-	-	-	-	1,461,586
Communications	918,461	9,036	-	-	-	-	927,497
Affiliated management fees	11,480,541	-	-	-	22,102	(381,125)	11,121,518
Interest	180,027	-	-	40,621	-	-	220,648
Miscellaneous	2,399,771	1,359,026	-	117,170	88,357	-	3,964,324
Total expenses	81,919,046	2,485,180	-	210,741	567,456	(381,125)	84,801,298
Operating gain (loss)	(1,601,367)	(861,809)	248,257	(59,764)	304,978	-	(1,969,705)

See accompanying independent auditors' report.

CENTERSTONE OF INDIANA, INC.

Consolidating Statement of Activities and Changes in Net Assets

Year ended June 30, 2019

	Centerstone of Indiana, Inc.	Centerstone Foundation, Inc.	Johnson Nichols Health Clinic, Inc.	Independent Living Alternatives, Inc.	Supportive Housing, LLC	Eliminations	Total
Nonoperating revenues (expenses):							
Contributions and pledges	\$ 493,937	\$ 1,964,132	\$ -	\$ -	\$ -	\$ -	\$ 2,458,069
Realized gain on investments	-	438,229	-	-	-	-	438,229
Unrealized loss on investments	-	(218,309)	-	-	-	-	(218,309)
Interest and dividends	757	157,841	-	-	-	-	158,598
Gain on disposal of assets	500	-	-	-	-	-	500
Other	51,987	(98,491)	-	-	-	-	(46,504)
Total nonoperating revenues (expenses)	547,181	2,243,402	-	-	-	-	2,790,583
Excess of revenues over expenses (expenses over revenues)	(1,054,186)	1,381,593	248,257	(59,764)	304,978	-	820,878
Other changes in net assets without donor restrictions:							
Contributions to supported entities	1,750	(221,023)	-	-	-	-	(219,273)
Net assets released from restrictions	-	367,069	-	-	-	-	367,069
Total other changes in net assets without donor restrictions	1,750	146,046	-	-	-	-	147,796
Change in net assets without donor restrictions	(1,052,436)	1,527,639	248,257	(59,764)	304,978	-	968,674
Change in net assets with donor restrictions:							
Contributions and pledges	-	143,973	-	-	-	-	143,973
Net assets released from restriction	-	(367,069)	-	-	-	-	(367,069)
Change in net assets with donor restrictions:	-	(223,096)	-	-	-	-	(223,096)
Change in net assets	(1,052,436)	1,304,543	248,257	(59,764)	304,978	-	745,578
Net assets (deficit) at beginning of year	25,728,638	9,025,788	(248,257)	(35,346)	1,754,012	-	36,224,835
Net assets (deficit) at end of year	\$ 24,676,202	\$ 10,330,331	\$ -	\$ (95,110)	\$ 2,058,990	\$ -	\$ 36,970,413

See accompanying independent auditors' report.

CENTERSTONE OF INDIANA, INC.

Consolidating Statement 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	4,492,892	-	-	-	-	(306,517)	4,186,375
Unconditional promises to give, net	-	294,261	-	-	-	-	294,261
Prepaid expenses and other current assets	186,256	-	-	1,083	-	-	187,339
Total current assets	16,399,321	985,328	58,260	172,335	358,172	(323,361)	17,650,055
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	\$ 33,484,336	\$ 11,630,979	\$ 58,260	\$ 433,204	\$ 7,857,409	\$ (323,361)	\$ 53,140,827
<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	-	2,556,468	306,517	-	-	(306,517)	2,556,468
Accrued payroll, benefits and taxes	3,905,375	34,782	-	-	-	-	3,940,157
Total current liabilities	5,901,445	2,605,191	306,517	36,181	559,730	(323,361)	9,085,703
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
Total liabilities	7,755,698	2,605,191	306,517	468,550	6,103,397	(323,361)	16,915,992
Net assets (deficit):							
Without donor restrictions	25,728,638	3,297,698	(248,257)	(35,346)	1,754,012	-	30,496,745
With donor restrictions	-	5,728,090	-	-	-	-	5,728,090
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	\$ 33,484,336	\$ 11,630,979	\$ 58,260	\$ 433,204	\$ 7,857,409	\$ (323,361)	\$ 53,140,827

See accompanying independent auditors' report.

CENTERSTONE OF INDIANA, INC.

Consolidating Statement 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	\$ 40,809,742	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,809,742
Provision for bad debts	(704,412)	-	-	-	-	-	(704,412)
Net client service revenue less provision for bad debts	40,105,330	-	-	-	-	-	40,105,330
Public support	27,655,843	-	160,195	-	831,513	-	28,647,551
Other revenue	2,907,000	-	-	149,024	-	(47,862)	3,008,162
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	764,412	46,648	-	-	-	50,078,165
Professional fees	2,643,787	34,140	-	-	-	-	2,677,927
Facilities and equipment	4,348,701	42,665	-	-	-	-	4,391,366
Depreciation and amortization	999,310	-	-	9,957	226,735	-	1,236,002
Travel and transportation	2,063,549	52,044	-	-	-	-	2,115,593
Supplies	1,392,285	23,066	-	-	-	-	1,415,351
Communications	940,334	9,129	-	-	-	-	949,463
Affiliated management fees	9,451,137	39,715	-	-	22,162	(22,162)	9,490,852
Interest	79,205	-	-	41,857	-	-	121,062
Miscellaneous	1,293,070	2,013,604	44,716	67,527	288,676	(25,700)	3,681,893
Total expenses	72,478,483	2,978,775	91,364	119,341	537,573	(47,862)	76,157,674
Operating gain (loss)	(1,810,310)	(2,978,775)	68,831	29,683	293,940	-	(4,396,631)

See accompanying independent auditors' report.

CENTERSTONE OF INDIANA, INC.

Consolidating Statement 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):							
Contributions and pledges	\$ -	\$ 2,050,959	\$ -	\$ -	\$ -	\$ -	\$ 2,050,959
Realized loss 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)	2,991,575	(4,680)	(46)	-	-	2,947,754
Excess of revenues over expenses (expenses over revenues)	(1,849,405)	12,800	64,151	29,637	293,940	-	(1,448,877)
Other changes in net assets without donor restrictions:							
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 net assets without donor restrictions	-	-	-	-	-	-	-
Change in net assets without donor restrictions	(1,849,405)	12,800	64,151	29,637	293,940	-	(1,448,877)
Change in net assets with donor restrictions:							
Contributions and pledges	-	783,877	-	-	-	-	783,877
Change in value of beneficial interest	-	24,311	-	-	-	-	24,311
Net assets released from restriction	-	(1,609,166)	-	-	-	-	(1,609,166)
Change in net assets with donor restrictions:	-	(800,978)	-	-	-	-	(800,978)
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	\$ 25,728,638	\$ 9,025,788	\$ (248,257)	\$ (35,346)	\$ 1,754,012	\$ -	\$ 36,224,835

See accompanying independent auditors' report.

CENTERSTONE OF INDIANA, INC.

**Schedule of Expenditures of State and Local Awards
Year ended June 30, 2019**

Grantor	Expenditures
State	
Indiana Division of Mental Health and Addiction	\$ 10,986,832
Indiana Family & Social Services	2,855,026
Other	1,092,958
Total state awards	14,934,816
Local	
Bartholomew County Funds	614,896
Brown County Funds	132,454
Decatur County Funds	195,520
Henry County Funds	41,250
Jackson County Funds	343,874
Jefferson County Funds	45,275
Jennings County Funds	107,841
Lawrence County Funds	291,516
Marion County Funds	100,136
Monroe County Funds	730,429
Morgan County Funds	408,552
Owen County Funds	104,335
Rush County Funds	143,340
Wayne County Funds	517,101
Fayette County Funds	84,996
Randolph County Funds	158,042
Union County Funds	46,116
Other	636,662
Total local awards	4,702,335
	\$ 19,637,151

Note - The accompanying schedule of expenditures of state and local awards for the year ended June 30, 2019, includes the state award activity of the Corporation on the accrual basis of accounting. The basic financial statement classifications may include other financial activity for reporting purposes. Therefore, some of the amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements. The schedule of expenditures of federal awards for the Corporation for the year ended June 30, 2019 is included in the Consolidated Single Audit of Centerstone of America, Inc.

See accompanying independent auditors' report.

CENTERSTONE OF AMERICA, INC.

Consolidated Single Audit Report

June 30, 2019

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, 2019, 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 auditors' 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, 2019, in accordance with accounting principles generally accepted in the United States of America.

LBMC, PC

Brentwood, Tennessee
December 11, 2019

**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, 2019, and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 11, 2019.

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 the 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
December 11, 2019

**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, 2019. 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, 2019.

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
December 11, 2019

CENTERSTONE OF AMERICA, INC.

**Schedule of Expenditures of Federal Awards
Year ended June 30, 2019**

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	\$ 531,062
U.S. Department of Housing and Urban Development			
Supportive Housing Program	14.235	N/A	332,809
Emergency Solutions Grant Program - Passed through the Indiana Housing and Community Development Authority	14.231	N/A	144
Total U.S. Department of Housing and Urban Development			<u>332,953</u>
U.S. Department of Veteran's Affairs			
VA Supportive Services for Veteran Families Programs	64.033	XIII 006	<u>13,731</u>
U.S. Department of Health and Human Services			
Passed through the Indiana Division of Mental Health Administration for Children and Families Grant Projects for Assistance in Transition from Homelessness (PATH)			
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.086	90FK0102-01-00	1,585,260
	93.150	N/A	89,019
		15SM62225A, 15SP21203A,	
	93.243	15T125696A, 15TI26257A, 18SM80690A	1,817,347
Social Services Block Grant	93.667	1902INSOSR	467,911
Certified Community Behavioral Health Clinic	93.829	1H79SM081852-01	676,786
Healthy Start Initiative - Eliminating Racial/Ethnic Disparities	93.926	1 H49MC32724-01-00	53,620
Block Grants for Community Mental Health Services	93.958	2B09SM010019-19	508,163
Block Grants for Prevention and Treatment of Substance Abuse	93.959	3B08TI010019-19S1	<u>2,257,127</u>
Total U.S. Department of Health and Human Services			<u>7,455,233</u>
Total Centerstone of Indiana, Inc.			<u>\$ 8,332,979</u>
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	\$ 1,716,410
U.S. Department of Veteran's Affairs			
VA Supportive Services for Veteran Families Program	64.033	2012-ZZ-070	333,081
VA Supportive Services for Veteran Families Program	64.033	2019-ZZ-070	1,873,865
VA Supportive Services for Veteran Families Program	64.033	2018-TN-403	<u>252,212</u>
Total U.S. Department of Veteran's Affairs			<u>2,459,158</u>

During the year ended June 30, 2019, 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, 2019

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	2,925
Tennessee Lives Count - Connect	93.243	56907	121,529
Tennessee Lives Count - Connect	93.243	59921	297,694
TARGET Zero	93.764	51388	2,454
TARGET Zero Suicide 2	93.243	56911	71,290
TARGET Zero Suicide 2	93.243	60068	229,163
Better Attitudes and Skills in Children (B.A.S.I.C.)	93.958	58740	306,764
Community Targeted Transitional Support (ILA)	93.958	58947	115,600
Regional Intervention Program	93.958	58831	297,880
Older Adult Program	93.958	58705	67,503
Inpatient Targeted Transitional Support	93.958	58974	97,693
School Based Behavioral Health Liaison Decatur County	93.958	60925	11,100
TN Prevention Network	93.959	58045	231,960
Total passed through the State of Tennessee, Department of Mental Health and Substance Abuse Services			<u>1,853,555</u>
Health Home (Integrated Care)	93.243	5H79SM062227	391,013
Enhanced Follow-Up Project	93.243	5U79SM063279	110,007
Centerstone Interactive Recover (I-Recover)	93.243	5H79TI026491	350,807
CHAT	93.243	3H79SP021693	181,212
eRecovery	93.243	SM 061670	50,755
ATDC Expansion	93.243	H79TI081062	165,087
GBHI - Integrated Community Services	93.243	H79TI08453	137,331
Centerstone's Engagement and Tx Services (CETS)	93.243	H79TI080668	278,127
Centerstone Integrated Treatment, Care, and Prevention (ITCP)	93.243	H79SM080583	192,718
Centerstone MAT Services (C-MAT)	93.243	H79TI081381	212,363
Be in Charge 2	93.297	TP1AH000081	1,307,752
Healthy Start	93.926	H49MC27830	741,459
Passed through the State of Tennessee, Department of Health			
Evidence-Based Home Visitation Services	93.870	55830	316,319
Evidence-Based Home Visitation Services	93.870	60194	671,896
Total passed through the State of Tennessee, Department of Health			<u>988,215</u>
Total U.S. Department of Health and Human Services			<u>6,960,401</u>
Total Centerstone of Tennessee, Inc.			<u>\$ 11,135,969</u>
Centerstone of Illinois, Inc.:			
U.S. Department of Labor			
Training to Work - Adult Reentry	17.270	PE-27385-15-60-A-17	<u>\$ 60,809</u>
U.S. Department of Housing and Urban Development			
Continuum of Care Grant	14.267	IL0049L5T041710	<u>285,637</u>
U.S. Department of Health and Human Services			
Passed through the Illinois Department of Health and Human Services			
Opioid STR	93.788	266464900	500,000
Opioid STR	93.788	26646490S	18,585
Promoting Integration of Primary and Behavioral HC Project	93.243	225924900	229,645
Youth Treatment Implementation Initiative	93.243	266464900	69,191
Social Services Block Grant	93.667	807624900	41,883
Community Mental Health Services Block Grant	93.958	22876440A	924,107
Substance Abuse Prevention and Treatments Block Grants	93.959	260134400 and 26013490P	552,675
Total passed through the Illinois Department of Human Services			<u>2,336,086</u>

During the year ended June 30, 2019, 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, 2019**

U.S. Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
Substance Abuse and Mental Health Services Grant	93.243	1H79SM062235-01	365,489
Early Head Start	93.600	05CH8444/03/04	756,489
Youth and Family Tree	93.243	1H79TI081314-01	185,203
Certified Community Behavioral Health Clinic	93.829	1H79SM081851-01	586,841
Centerstone's Partnership to Help Children and Families Flourish	93.087	90CU0096-01-00	226,921
Age Smart	93.051	Alzheimers	6,500
Age Smart	93.052	3 E Caregiver Counseling	36,000
Total U.S. Department of Health and Human Services			4,499,529
Total Centerstone of Illinois, Inc.			\$ 4,845,975
Centerstone of Florida, Inc.:			
U.S. Department of Justice			
Passed through the State of Florida Office of Attorney General			
Crime Victim Assistance	16.575	VOCA-2017-Centerstone I-00372	\$ 58,880
Crime Victim Assistance	16.575	VOCA-2018-Centerstone I-00284	169,167
Total passed through the State of Florida Office of Attorney General			228,047
Passed through Manatee County			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2018 DJBX0764	108,242
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2019 JAGC MANA 1N2048	41,469
Total passed through Manatee County			149,711
Total U.S. Department of Justice			377,758
U.S. Department of Health and Human Services			
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1U79SM063055-01	423,840
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1H79SM080891-01	280,765
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1H79TI081156-01	124,004
Passed through the Central Florida Behavioral Health Network			
Temporary Assistance to Needy Families	93.558	QB026-18	79,969
Block Grants for Community Mental Health Services	93.958	QB026-18	12,313,657
Block Grants for Community Mental Health Services	93.958	QB026-18VC	88,144
Block Grants for Prevention and Treatment of Substance Abuse	93.959	QB026-18	3,607,983
Block Grants for Prevention and Treatment of Substance Abuse	93.959	QB026-18VC	1,468
Medical Assistance Program	93.778	QB026-18	1,070,567
SA&MH Services - Projects of Regional & National Significance	93.243	QB026-18	16,874
Comprehensive Community Mental Health	93.104	QB026-18	150,695
State Targeted Response to the Opioid Crisis Grants	93.788	QB026-18	154,768
Total passed through the Central Florida Behavioral Health Network			17,484,125
Total U.S. Department of Health and Human Services			18,312,734
Total Centerstone of Florida, Inc.			\$ 18,690,492

During the year ended June 30, 2019, 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, 2019

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	\$ 9,487
U.S. Department of Housing and Urban Development			
Supportive Housing Program	14.267	KY0191L4I011700	62,752
U.S. Department of Justice			
Passed through the Louisville Metro Criminal Justice Commission			
Criminal and Juvenile Justice and Mental Health			
Criminal Justice Commission	16.745	2014-MO-BX-0028	9,810
Second Chance Act Reentry Initiative	16.812	2015-RW-BX-0010	23,615
Total passed through the Louisville Metro Criminal Justice Commission			33,425
Total U.S. Department of Justice			33,425
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	PON2-729-1900000937-3	100,000
Substance Abuse and Mental Health Services	93.243	PON2-729-1900000937-3	1,456,128
Community-Based Child Abuse Prevention Grants	93.590	PON2-736-1800002003-1	333,392
Community-Based Child Abuse Prevention Grants	93.590	PON2-736-1800004118	33,247
Social Services Block Grant - Crisis Center Hotline	93.667	PON2-736-1800001962-1	25,200
Project Start	93.658	PON2-736-18000001643-1	183,331
Medical Assistance Program - PASRR	93.778	PON2-729-1900000895-1	131,936
Block Grants for Community Mental Health Services	93.958	PON2-729-1900000937-3	1,228,990
Substance Abuse and Mental Health Services	93.788	PON2-729-1900000937-3	1,315,675
Substance Abuse and Mental Health Services	93.788	PON2-729-1800000550-1	1,310,202
Block Grants for Prevention and Treatment of Substance Abuse	93.959	PON2-729-1900000937-3	3,835,600
Total passed through the Kentucky Cabinet for Health and Family Services			9,953,701
Substance Abuse and Mental Health Services - Passed through the University of Louisville Research Foundation	93.243	5U79SM063218-03	83,479
Phoenix Family Health Center	93.243	N/A	150,696
Portland Family Health Center	93.243	N/A	150,696
Certified Community Behavioral Health Clinic	93.829	1H79SM081849-01	593,906
Drug Abuse and Addiction Research Programs - Passed through Dartmouth College	93.279	R01DA041416	159,564
Total U.S. Department of Health and Human Resources			11,092,042

During the year ended June 30, 2019, 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, 2019

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	6H79SP016378-10M002	133,784
Total Centerstone of Kentucky, Inc.			<u>\$ 11,331,490</u>
Research Institute:			
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 Enhanced Healthy Transitions, Successful Futures	93.243	52229	\$ 156
Healthy Transitions, Successful Futures	93.243	56370	24,204
Healthy Transitions, Successful Futures	93.243	60122	77,967
Systems of Care Across Tennessee (SOCAT)	93.243	56849	42,600
Systems of Care Across Tennessee (SOCAT)	93.104	60099	131,815
Targeted Efficacy and Capacity Building in Opioid Treatment - Tennessee (TECBOT - TN)	93.243	57578	44,294
Targeted Efficacy and Capacity Building in Opioid Treatment - Tennessee (TECBOT - TN)	93.243	60506	125,648
Targeted Efficacy and Capacity Building in Opioid Treatment - Tennessee Expansion (TECBOT - TN X)	93.243	60996	11,571
Total passed through the State of Tennessee, Department of Mental Health and Substance Abuse Services			<u>458,255</u>
Passed through the National Institute of Mental Health			
Standardized vs. Tailored IMBCD	93.242	BL-4631224-CRI	2,336
Standardized vs. Tailored IMBCD	93.242	BL-4631254-CRI	15,653
Total passed through the National Institute of Mental Health			<u>17,989</u>
Total U.S. Department of Health and Human Services			<u>476,244</u>
Total Research Institute			<u>\$ 476,244</u>
Total federal expenditures			<u>\$ 54,813,149</u>

During the year ended June 30, 2019, 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, 2019

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

CFDA #	Total Expenditures
10.557	\$ 531,062
10.558	\$ 9,487
14.231	\$ 144
14.235	\$ 332,809
14.267	\$ 348,389
16.575	\$ 228,047
16.738	\$ 149,711
16.745	\$ 9,810
16.812	\$ 23,615
17.270	\$ 1,777,219
64.033	\$ 2,472,889
93.051	\$ 6,500
93.052	\$ 36,000
93.086	\$ 1,585,260
93.087	\$ 229,846
93.104	\$ 282,510
93.150	\$ 189,019
93.242	\$ 17,989
93.243	\$ 8,468,893
93.276	\$ 133,784
93.279	\$ 159,564
93.297	\$ 1,307,752
93.558	\$ 79,969
93.590	\$ 366,639
93.600	\$ 756,489
93.658	\$ 183,331
93.667	\$ 534,994
93.764	\$ 2,454
93.778	\$ 1,202,503
93.788	\$ 3,299,230
93.829	\$ 1,857,533
93.870	\$ 988,215
93.926	\$ 795,079
93.958	\$ 15,959,601
93.959	\$ 10,486,813
	\$ 54,813,149

During the year ended June 30, 2019, 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, 2019

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, 2019. 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").

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, 2019 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, 2019**

NOTE E – Insurance

During the year ended June 30, 2019, 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	5,000,000
Fiduciary liability	5,000,000
Directors' and officers' liability	11,000,000
Auto	1,000,000
Workers compensation	1,000,000
Commercial property	165,803,000
Employment practices liability	10,000,000

CENTERSTONE OF AMERICA, INC.

**Schedule of Findings and Questioned Costs
June 30, 2019**

Section I - Summary of Auditors' 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 auditors' 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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
64.033	VA Supportive Services for Veteran Families Program
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance
93.778	Medical Assistance Program
93.788	State Targeted Response to the Opioid Crisis
93.829	Section 223 Demonstration Programs to Improve Community Mental Health Services
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:

\$1,644,394

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