

CENTERSTONE FOUNDATION, INC.

Financial Statements

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

CENTERSTONE FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Centerstone Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of June 30, 2021 and 2020, the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the 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 Foundation'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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2021 and 2020, and the changes in its net assets, cash flows and functional expenses for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

LBMC, PC

Brentwood, Tennessee
November 30, 2021

CENTERSTONE FOUNDATION, INC.

Statements of Financial Position

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 474,830	\$ 692,573
Unconditional promises to give, net	185,572	320,923
Prepaid expenses and other current assets	<u>5,878</u>	<u>3,293</u>
Total current assets	666,280	1,016,789
Unconditional promises to give, net	-	35,000
Beneficial interest	1,536,183	1,303,099
Assets whose use is limited	<u>12,367,419</u>	<u>9,806,002</u>
Total assets	<u><u>\$ 14,569,882</u></u>	<u><u>\$ 12,160,890</u></u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 23,209	\$ 11,887
Due to affiliated entities	57,482	749,625
Accrued payroll, benefits and taxes	<u>69,379</u>	<u>82,139</u>
Total current liabilities	<u>150,070</u>	<u>843,651</u>
Net assets:		
Without donor restrictions	9,205,959	6,152,621
With donor restrictions	<u>5,213,853</u>	<u>5,164,618</u>
Total net assets	<u>14,419,812</u>	<u>11,317,239</u>
Total liabilities and net assets	<u><u>\$ 14,569,882</u></u>	<u><u>\$ 12,160,890</u></u>

See accompanying notes to the financial statements.

CENTERSTONE FOUNDATION, INC.

Statements of Activities and Changes In Net Assets

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues:		
Contributions	\$ 1,773,066	\$ 2,038,595
Net assets released from restrictions	-	350,376
Affiliated management fees	843,733	1,053,637
Total revenues	<u>2,616,799</u>	<u>3,442,608</u>
Operating expenses:		
Salary and benefits	596,086	778,607
Professional fees	37,968	34,535
Travel and transportation	4,215	18,378
Facilities	63,473	68,053
Contributions	1,108,770	1,082,961
Other	163,956	169,637
Total operating expenses	<u>1,974,468</u>	<u>2,152,171</u>
Operating gain	642,331	1,290,437
Nonoperating income (expenses):		
Investment income, net	159,434	140,134
Realized gain (loss) on investments	1,233,718	(93,667)
Unrealized gain on investments	1,139,171	373,424
Other	233,084	(32,669)
Total nonoperating income	<u>2,765,407</u>	<u>387,222</u>
Excess of revenues over expenses	3,407,738	1,677,659
Other changes in net assets without donor restrictions:		
Contributions to supported affiliates	(354,400)	(350,376)
Total other changes in net assets without donor restrictions	<u>(354,400)</u>	<u>(350,376)</u>
Change in net assets without donor restrictions	3,053,338	1,327,283
Net assets with donor restrictions:		
Contributions	49,235	10,000
Net assets released from restrictions	-	(350,376)
Change in net assets with donor restrictions	<u>49,235</u>	<u>(340,376)</u>
Change in net assets	3,102,573	986,907
Net assets:		
Net assets at beginning of year	11,317,239	10,330,332
Net assets at end of year	<u>\$ 14,419,812</u>	<u>\$ 11,317,239</u>

See accompanying notes to the financial statements.

CENTERSTONE FOUNDATION, INC.

Statements of Cash Flows

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating activities:		
Change in net assets	\$ 3,102,573	\$ 986,907
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Realized (gain) loss on sale of investments	(1,233,718)	93,667
Unrealized gain on investments	(1,139,171)	(373,424)
Change in beneficial interest	(233,084)	32,669
Provisions for uncollectible pledges and discount to net present value on promises to give	(5,686)	(10,563)
Restricted contributions for long-term purposes	(49,235)	(10,000)
Changes in operating assets and liabilities:		
Due to affiliates	(692,143)	(825,123)
Unconditional promises to give, net	176,037	299,835
Prepaid expenses and other current assets	(2,585)	(3,029)
Accounts payable and accrued expenses	11,322	(9,057)
Accrued payroll, benefits and taxes	(12,760)	11,662
Net cash provided (used) by operating activities	<u>(78,450)</u>	<u>193,544</u>
Investing activities:		
Proceeds from the sale or maturity of investments	13,727,017	14,643,234
Purchases of investments	(13,915,545)	(14,842,348)
Net cash used by investing activities	<u>(188,528)</u>	<u>(199,114)</u>
Net cash provided by financing activities - restricted contributions for long-term purposes	<u>49,235</u>	<u>10,000</u>
Increase (decrease) in cash and cash equivalents	<u>(217,743)</u>	<u>4,430</u>
Cash and cash equivalents at beginning of year	<u>692,573</u>	<u>688,143</u>
Cash and cash equivalents at end of year	<u><u>\$ 474,830</u></u>	<u><u>\$ 692,573</u></u>

See accompanying notes to the financial statements.

CENTERSTONE FOUNDATION, INC.

Statement of Functional Expenses

Year ended June 30, 2021

	Program Services	Management and General	Total
Salary and benefits	\$ 219,701	\$ 376,385	\$ 596,086
Professional fees	37,968	-	37,968
Travel and transportation	700	3,515	4,215
Facilities	33,146	30,327	63,473
Contributions	1,108,770	-	1,108,770
Other	159,905	4,051	163,956
	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 1,560,190</u>	<u>\$ 414,278</u>	<u>\$ 1,974,468</u>

See accompanying notes to the financial statements.

CENTERSTONE FOUNDATION, INC.

Statement of Functional Expenses

Year ended June 30, 2020

	Program Services	Management and General	Total
Salary and benefits	\$ 314,395	\$ 464,212	\$ 778,607
Professional fees	15,558	18,977	34,535
Travel and transportation	2,427	15,951	18,378
Facilities	42,199	25,854	68,053
Contributions	1,082,961	-	1,082,961
Other	132,535	37,102	169,637
	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 1,590,075</u>	<u>\$ 562,096</u>	<u>\$ 2,152,171</u>

See accompanying notes to the financial statements.

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

June 30, 2021 and 2020

(1) Nature of operations

Centerstone Foundation, Inc. (the "Foundation") was organized to serve as a supporting organization of Centerstone of Indiana, Inc., Centerstone of Tennessee, Inc., Centerstone of Illinois, Inc., Centerstone of Florida, Inc., the Research Institute, and various other entities (collectively referred to as the "Supported Organizations") under the holding company, Centerstone of America, Inc. (the "Parent"). The primary purposes are to: promote and support the interests and purposes of the Supported Organizations; to support fundraising for the Supported Organizations from the public; to receive, maintain, and administer funds and expend principal and income therefrom in interest of the Supported Organizations; to collect contributions from the general public in the name of the Supported Organizations and to develop, support, promote, and/or conduct educational programs and other charitable activities in interest of the Supported Organizations.

The accompanying financial statements include only the financial position, changes in net assets, cash flows and functional expenses of the Foundation.

(2) Summary of significant accounting policies

(a) Affiliated entities and related parties

The Foundation is part of an affiliated group of entities. The Foundation is included in the reporting entity of Centerstone of Indiana, Inc., as Centerstone of Indiana, Inc. is the sole member of the Foundation.

Centerstone of Indiana, Inc. is a not-for-profit Community Mental Health Center ("CMHC") with various locations in Indiana. The Parent is a not-for-profit organization and serves as a holding company and sole member providing management and administrative functions to those organizations under its control which primarily provide behavioral healthcare services. Centerstone of Tennessee, Inc. is a not-for-profit CMHC with various locations in Tennessee. Centerstone of Illinois, Inc. is a not-for-profit CMHC with various locations in Illinois. Centerstone of Florida, Inc. is a not-for-profit CMHC with various locations in Florida. The Research Institute is a not-for-profit research evaluation organization that exists to improve the quality and effectiveness of behavioral healthcare, which works in conjunction with the other Supported Organizations.

(b) 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 Foundation and changes therein are classified and reported as follows:

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

June 30, 2021 and 2020

Net assets without donor restrictions - Net assets that are not restricted by donor-imposed restrictions and are 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 Foundation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions - Net assets resulting from contributions and other inflows of net assets whose use by the Foundation 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 Foundation 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 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 Foundation. 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.

(c) Cash and cash equivalents

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

(d) Investments and investment income

Investments in equity securities and debt securities are measured at fair value in the statements of financial position and include assets whose use is limited and beneficial interest. 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 and investment income from all investments are reported as a component of the performance indicator unless the income is restricted by donor or law.

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

June 30, 2021 and 2020

(e) Assets whose use is limited

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

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

(f) Contributions and unconditional promises to give

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

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

The Foundation 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 and contributions of donated services are recorded based on their estimated fair value at the date of donation.

(g) Donor support

The Foundation reports 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 as support with donor restrictions.

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

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Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service, as instructed by the donor. The Foundation reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

(h) Income taxes

The Foundation is a not-for-profit corporation, as described under Code Section 501(c)(3) of the Internal Revenue Code ("IRC"). As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 - Return of Organization Exempt from Income Tax which is an informational return only.

Accounting principals generally accepted in the United States ("GAAP") requires 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 by the Foundation, and has concluded that as of June 30, 2021 and 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Foundation filed its federal and state income tax returns for periods through June 30, 2020. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

(i) Performance indicator

The statements of activities and changes in net assets include a performance indicator, excess of revenue over expenses. Changes in net assets without donor restrictions which would be excluded from the performance indicator include contributions to supported affiliates.

(j) Use of estimates

The preparation of the 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

June 30, 2021 and 2020

(k) Functional expenses

The financial statements report certain categories of expenses that are attributable to program or supporting functions of the Foundation. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, professional fees, travel and transportation, facilities, and other costs. These costs are allocated based on management's estimates of time and effort involved for the program and supporting functions.

(l) COVID-19 pandemic

In January 2020, the Secretary of the U.S. Department of Health and Human Services ("HHS") declared a national public health emergency due to a novel strain of coronavirus ("COVID-19"). In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. While the Foundation's operations were not significantly impacted by COVID-19 as of and for the years ended June 30, 2021 and 2020, COVID-19 may have an impact on the Foundation's operations and financial results subsequent to year end that the Foundation is not currently able to quantify. Continuing disruptions to the Foundation's business as a result of COVID-19 could impact its results of operations, financial condition, and cash flows including reductions in contributions and collectibility of unconditional promises to give and potential market value changes in investments and assets whose use is limited.

(m) Events occurring after reporting date

The Foundation has evaluated events and transactions that occurred between June 30, 2021 and November 30, 2021, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Liquidity and availability

The Foundation 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 Foundation'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 statement of financial position are as follows at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 474,830	\$ 692,573
Unconditional promises to give, net	<u>120,317</u>	<u>149,445</u>
	<u>\$ 595,147</u>	<u>\$ 842,018</u>

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

June 30, 2021 and 2020

Cash and cash equivalents are not subject to donor or other restrictions. The unconditional promises to give that are available for general expenditures within one year exclude those which are subject to donor or other restrictions. The Parent also has a \$5,000,000 line of credit at June 30, 2021 and 2020 that could be utilized for the Foundation. The line of credit matures on January 31, 2022.

(4) 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 \$1,000,000 to the Community Foundation to establish the Agency Endowment Fund that specifies Centerstone of Tennessee, Inc. as the beneficiary. The intended use of the Agency Endowment Fund is to support the mission of serving the needy for the Supported Organizations. 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, 2021 and 2020. The following schedule summarizes the investment expenses and earnings.

	<u>2021</u>	<u>2020</u>
Beneficial interest in Community Foundation of Middle Tennessee, beginning of year	\$ 1,303,099	\$ 1,335,768
Investment expenses	(9,114)	(9,012)
Investment gain	310,198	44,243
Grants paid out	<u>(68,000)</u>	<u>(67,900)</u>
Beneficial interest in Community Foundation of Middle Tennessee, end of year	\$ <u>1,536,183</u>	\$ <u>1,303,099</u>

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 the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurement* (Note 6).

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

June 30, 2021 and 2020

(5) Assets whose use is limited

The composition of assets whose use is limited at June 30, 2021 and 2020 is set forth in the following table:

	<u>2021</u>	<u>2020</u>
Cash	\$ 49,998	\$ 231,094
Common stocks	8,175,333	-
Mutual funds	4,142,088	7,643,283
Exchange-traded funds	-	1,931,625
	<u>\$ 12,367,419</u>	<u>\$ 9,806,002</u>

(6) 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 Foundation 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.

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

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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, 2021 and 2020.

- *Common stocks:* Valued at the daily closing price as reported on an active market on which the common stocks are traded.
- *Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation 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 Foundation 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 Foundation'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 Foundation's assets measured at fair value on a recurring basis at June 30, 2021 and 2020:

Fair Value Measurements as of <u>June 30, 2021 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				
Common stocks				
U.S. equity	\$ 4,140,532	\$ 4,140,532	\$ -	\$ -
Global equity	1,226,503	1,226,503	-	-
International equity	1,835,945	1,835,945	-	-
International growth equity	972,353	972,353	-	-
Mutual funds				
Fixed income	<u>4,142,088</u>	<u>4,142,088</u>	\$ -	\$ -
	12,317,421	<u>\$ 12,317,421</u>	\$ -	\$ -
Cash	<u>49,998</u>			
	<u>\$ 12,367,419</u>			
Beneficial interest - funds held by Community Foundation	<u>\$ 1,536,183</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,536,183</u>

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

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**Fair Value Measurements as of
June 30, 2020 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				
Bond	\$ 1,402,347	\$ 1,402,347	\$ -	\$ -
Index	221,470	221,470	-	-
Value	307,808	307,808	-	-
Mutual funds				
Growth	3,141,694	3,141,694	-	-
Index	1,495,373	1,495,373	-	-
Fixed income	<u>3,006,216</u>	<u>3,006,216</u>	-	-
	9,574,908	\$ <u>9,574,908</u>	\$ -	\$ -
Cash	<u>231,094</u>			
	<u>\$ 9,806,002</u>			
Beneficial interest - funds held by Community Foundation	<u>\$ 1,303,099</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,303,099</u>

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

(7) Unconditional promises to give

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

	<u>2021</u>	<u>2020</u>
Promises receivable in less than one year	\$ 186,156	\$ 327,193
Promises receivable in one to five years	-	35,000
Less net present value discount	(584)	(6,270)
Less allowance for uncollectible pledges	<u>-</u>	<u>-</u>
	<u>\$ 185,572</u>	<u>\$ 355,923</u>

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

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(8) Net assets

The net assets with donor restrictions consist of the following as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Endowments	\$ 4,010,645	\$ 4,010,645
Beneficial interest	1,000,000	1,000,000
Center for Clinical Excellence	125,992	125,992
Other	<u>77,216</u>	<u>27,981</u>
	<u>\$ 5,213,853</u>	<u>\$ 5,164,618</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, 2021 and 2020 for the following purposes:

	<u>2021</u>	<u>2020</u>
Endowment	\$ <u>-</u>	\$ <u>350,376</u>

(9) Endowment funds

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

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

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

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

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

June 30, 2021 and 2020

The endowment net assets by type of fund as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Donor-restricted endowment investment funds	\$ 4,010,645	\$ 4,010,645
Beneficial interest funds	<u>1,000,000</u>	<u>1,000,000</u>
	<u>\$ 5,010,645</u>	<u>\$ 5,010,645</u>

The Foundation 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 Foundation 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 Foundation 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 Foundation, and (7) the Foundation's investment policies.

Changes in endowment net assets for the years ended June 30, 2021 and 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance at June 30, 2019	\$ 4,966,110	\$ 4,361,021	\$ 9,327,131
Net investment gains	784,247	-	784,247
Contributions	45,000	-	45,000
Withdrawals	<u>-</u>	<u>(350,376)</u>	<u>(350,376)</u>
Balance at June 30, 2020	5,795,357	4,010,645	9,806,002
Net investment gains	2,532,252	-	2,532,252
Contributions	<u>29,165</u>	<u>-</u>	<u>29,165</u>
Balance at June 30, 2021	<u>\$ 8,356,774</u>	<u>\$ 4,010,645</u>	<u>\$ 12,367,419</u>

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

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

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(10) Affiliated entities and related party transactions

The Foundation entered into certain working capital, administrative and general transactions with its Supported Organizations as disclosed in Note 2(a). The Foundation has recorded a related net payable in the statements of financial position as of June 30, 2021 and 2020. For the years ended June 30, 2021 and 2020, the Foundation did not incur affiliated management fees for services provided by the Parent.

For the years ended June 30, 2021 and 2020, the Foundation received affiliated management fees of approximately \$840,000 and \$1,050,000, respectively, for services provided to 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.

(11) Commitments and contingencies

Insurance

The Foundation has elected to act as a self-insurer, through its Parent, for certain costs related to employee health, dental, and accident benefit programs. Expenses resulting from claims experience are recorded as incurred including an estimate of claims incurred but not reported. The related expense for the years ended June 30, 2021 and 2020 aggregated approximately \$45,000 and \$59,000, respectively. The Foundation has purchased insurance, which limits its exposure on a per individual basis to \$300,000, with no annual aggregate basis stop loss provision.

Effective April 12, 2021, the Parent established Homewood Insurance Company, Inc. as a pure captive insurance company. The Foundation is self-insured through Homewood Insurance Company, Inc. for professional, general and workers' compensation claims. The Foundation makes necessary contributions to Homewood Insurance Company, Inc. for claims made under the captive. For the year ended June 30, 2021, the Foundation recognized expense of approximately \$10,000 for claims incurred but not reported.