



CENTERSTONE

CENTERSTONE FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

CPAs / ADVISORS



CENTERSTONE FOUNDATION, INC.

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of Centerstone Foundation, Inc. (Foundation), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows 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.

Auditor's 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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 entity'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 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 financial statements.

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

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

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, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As explained in Notes 1 and 2 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 and cash flows of the Foundation. Our opinion is not modified with respect to this matter.

Blue & Co., LLC

Indianapolis, Indiana
November 29, 2016

CENTERSTONE FOUNDATION, INC.STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 680,660	\$ 1,162,520
Unconditional promises to give, net	225,280	372,818
Total current assets	<u>905,940</u>	<u>1,535,338</u>
Property and equipment	15,612	15,612
Less accumulated depreciation	5,112	4,823
Property and equipment, net	<u>10,500</u>	<u>10,789</u>
Beneficial interest	1,230,716	1,324,448
Assets whose use is limited	8,016,294	8,241,418
Unconditional promises to give, net	<u>81,840</u>	<u>207,572</u>
Total assets	<u>\$ 10,245,290</u>	<u>\$ 11,319,565</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	16,004	10,004
Accrued payroll, benefits and taxes	7,235	5,934
Deferred revenue	10,120	-0-
Due to affiliated entities	3,061	1,104,935
Total current liabilities	<u>36,420</u>	<u>1,120,873</u>
Agency liabilities	<u>35,953</u>	<u>255,286</u>
Total liabilities	72,373	1,376,159
Net assets		
Unrestricted	2,347,935	2,542,882
Temporarily restricted	2,179,875	1,755,417
Permanently restricted	5,645,107	5,645,107
Total net assets	<u>10,172,917</u>	<u>9,943,406</u>
Total liabilities and net assets	<u>\$ 10,245,290</u>	<u>\$ 11,319,565</u>

See accompanying notes to financial statements.

CENTERSTONE FOUNDATION, INC.

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

	2016	2015
Unrestricted revenues		
Contributions	\$ 541,175	\$ 613,286
Net assets released from restrictions	1,113,491	\$ 622,291
Total unrestricted revenues	1,654,666	1,235,577
Unrestricted expenses		
Salary and fringe benefits	143,174	95,943
Printing and postage	585	211
Travel, meals and entertainment	15,022	8,556
Professional fees	23,117	28,108
Depreciation	290	1,159
Contribution	510,321	272,171
Other	30,897	31,238
Total unrestricted expenses	723,406	437,386
Operating gain	931,260	798,191
Nonoperating revenues		
Investment income, net	127,369	123,890
Realized gain (loss) on investments	(143,257)	1,031,741
Unrealized loss on investments	(209,234)	(967,927)
Other	212,406	147,660
Total nonoperating revenues	(12,716)	335,364
Excess of revenue over expenses	918,544	1,133,555
Other changes in unrestricted net assets		
Contributions to supported affiliates	(1,416,788)	(1,393,469)
Net assets released from restrictions	303,297	771,178
Total other changes in unrestricted net assets	(1,113,491)	(622,291)
Change in unrestricted net assets	(194,947)	511,264
Temporarily restricted net assets		
Contributions	1,934,978	1,760,253
Net assets released from restrictions	(1,416,788)	(1,393,469)
Equity transfer with Centerstone of Illinois	-0-	52,570
Change in value of beneficial interest	(93,732)	(55,368)
Change in temporarily restricted net assets	424,458	363,986
Change in net assets	229,511	875,250
Net assets		
Beginning of year	9,943,406	9,068,156
End of year	\$ 10,172,917	\$ 9,943,406

See accompanying notes to financial statements.

CENTERSTONE FOUNDATION, INC.

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

	2016	2015
Operating activities		
Change in net assets	\$ 229,511	\$ 875,250
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	290	1,159
Provisions for uncollectible and discount to net present value on promises to give	40,889	(14,213)
Unrealized loss on assets whose use is limited	209,234	967,927
Realized (gain) loss on sale of assets whose use is limited	143,257	(1,031,741)
Change in beneficial interest	93,732	55,368
Restricted contributions and pledges	(1,934,978)	(1,760,253)
Changes in operating assets and liabilities		
Unconditional promises to give, net	232,381	379,490
Due to/from affiliates	(1,101,874)	(647,475)
Accounts payable	6,000	5,000
Accrued payroll, benefits and taxes	1,301	1,943
Deferred revenue	10,120	-0-
Net cash flows from operating activities	(2,070,137)	(1,167,545)
Investing activities		
Proceeds from the sale or maturity of investments	2,852,977	5,371,769
Purchases of investments	(2,980,345)	(5,506,145)
Change in agency liabilities	(219,333)	13,068
Net cash flows from investing activities	(346,701)	(121,308)
Financing activities		
Restricted contributions and pledges	1,934,978	1,760,253
Net cash flows from financing activities	1,934,978	1,760,253
Net change in cash and cash equivalents	(481,860)	471,400
Cash and cash equivalents		
Beginning of year	1,162,520	691,120
End of year	\$ 680,660	\$ 1,162,520
Noncash financing activities		
Equity transfer with Centerstone of Illinois	\$ -0-	\$ 52,570

See accompanying notes to financial statements.

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

1. SIGNIFICANT ACCOUNTING POLICIES

Organization

Centerstone Foundation, Inc. (Foundation) was organized to serve as a supporting organization to Centerstone of Indiana, Inc., Centerstone of Tennessee, Inc., Centerstone of Illinois, Inc., Centerstone of Florida, Inc. Centerstone Research Institute, Inc., and various other entities (collectively referred to as "the Supported Organizations") under the holding company, Centerstone of America, Inc. 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 and cash flows of the Foundation.

The Foundation is part of an affiliated group of entities and 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. Centerstone of America, Inc. 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. Centerstone Research Institute, Inc. 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 Centerstone family.

Use of Estimates

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

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Basis of Accounting

The Foundation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America for not-for-profit organizations. Accordingly, the Foundation's accounts are stated on the accrual basis of accounting, whereby revenues are recorded as earned and expenses are recorded as incurred.

Cash and Cash Equivalents

The Foundation considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

Contributions and Pledge Receivables

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions.

Unconditional pledges receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The allowances offset against pledges receivable represent management's estimate of expected losses to be realized, and are based on historical experience, current economic conditions, and other relevant factors. Amortization of the discounts is included in contribution revenue. Conditional pledges are recognized when the conditions on which they depend are substantially met.

Assets Whose Use Is Limited

During fiscal year 2013, Centerstone Foundation received the trustee assets in Centerstone Endowment Trust through an equity transfer, to provide additional oversight functions only after receiving approval from the Tennessee Attorney General. Originally, Centerstone of Tennessee, Inc. established the Centerstone Endowment 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, Centerstone Foundation became the sole trustee to coordinate the support to the mission of the communities served by all Centerstone parties.

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

The terms of the trust require annual distributions to supported entities of an amount equal to 4.5% of the average of the net fair market values of the underlying assets as determined at the end of the three most recently completed calendar years. The fair value of the related assets whose use is limited was approximately \$8,016,000 and \$8,241,000 as of June 30, 2016 and 2015, respectively.

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

Basis of Presentation

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

Net Asset Classifications

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

Unrestricted Net Assets

Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the 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. Unrestricted net assets were approximately \$2,348,000 and \$2,543,000 as of June 30, 2016 and 2015, respectively.

Temporarily Restricted Net Assets

The Foundation's temporarily restricted net assets consist of contributions and investment activity where the use of the funds is restricted by the donor and investment policy. Temporarily restricted net assets were approximately \$1,794,000 and \$1,755,000 as of June 30, 2016 and 2015, respectively.

Permanently Restricted Net Assets

The Foundation's permanently restricted net assets consist of gifts where the use of the funds is restricted by the terms of the gift. The corpuses of the gifts are restricted in perpetuity. Permanently restricted net assets were approximately \$5,645,000 as of June 30, 2016 and 2015.

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Public Support, Revenue and Net Assets

Unconditional promises to give cash and other assets to the Foundation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Permanently restricted net assets are those that the donor has requested to be held in perpetuity. In accordance with the donor stipulation, certain investment income earned on permanently restricted net assets can be used for other than the donor-restricted purpose. Accordingly, such income is recorded in the unrestricted net asset class as it is earned and expended. Temporarily restricted net assets are those that are restricted as to time or purpose. When the restriction expires, the net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction. Absent any donor-imposed restrictions, gifts of cash and other assets are recorded as unrestricted net assets.

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Property and Equipment

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

<u>Description</u>	<u>Range of Useful Lives</u>
Furniture and equipment	3-10
Leasehold improvements	10
Buildings	18-30
Building and land improvements	5-20

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

Deferred Revenue

The Foundation recognizes deferred revenue from grants or other support received before the service or obligation has been performed.

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Agency Liabilities

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

Concentration of Credit Risk

The Foundation maintains its cash in accounts, which at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Advertising

The Foundation uses advertising to promote its programs and activities among the general public. The advertising costs are expensed as incurred and less than \$1,000 in both 2016 and 2015 and recorded within other unrestricted expense in the statements of activities and changes in net assets.

Performance Indicator

The consolidated statements of activities and changes in net assets include a performance indicator, excess of revenue over expenses. Changes in unrestricted net assets which would be excluded from the performance indicator include net assets released from restriction and contributions to supported entities.

Income Taxes

The Foundation is a not-for-profit corporation, as described under Code Section 501(c)(3) of the Internal Revenue Code. 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 principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not 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, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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

Functional Allocation of Expenses

The costs of providing various supporting programs and other activities are summarized on a functional basis, herein. Accordingly, certain costs have been allocated among program, general and administrative, and fundraising classifications. Although the methods of allocation were considered appropriate, other methods could produce different results.

Reclassification

Certain amounts in the 2015 financial statements have been reclassified herein to conform to the current year presentation. There is no effect on the change in net assets as a result of these reclassifications.

Subsequent Events

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

Recently Issued Accounting Standards

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this new guidance is that "an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services". On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date for all entities by one year. These new standards, which the Foundation is not required to adopt until its fiscal year ending June 30, 2020, deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which the Foundation is not required to adopt until its fiscal year ending June 30, 2021, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position.

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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

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

2. 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 1. The Foundation has recorded a related net payable in the amount of approximately \$3,000 and \$1,105,000 as of June 30, 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015, the Foundation did not incur affiliated management fees for services provided by Centerstone of America, Inc.

The Foundation acts as the agent for various supported organizations. The balance in the related agency liability as of June 30, 2016 and 2015 is approximately \$36,000 and \$255,000, respectively.

3. BENEFICIAL INTEREST

During the fiscal year ending June 30, 2005, Centerstone of Tennessee, Inc. (the Center) transferred \$1,000,000 to the Community Foundation of Middle Tennessee (Community Foundation) to establish an investment in an Agency Endowment Fund that specifies the Center as the beneficiary. On July 1, 2012, the Center transferred the Agency Endowment Fund to Centerstone Foundation, Inc. for additional oversight function after receiving appropriate approval from the Tennessee Attorney General. Centerstone Foundation, Inc. became the trustee of the beneficial interest in the Community Foundation of Middle Tennessee subsequent to the transfer. The intended use of the Agency Endowment Fund is to support the mission of serving the needy for Centerstone affiliates.

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 Foundation's expressed intent. Centerstone Foundation, 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, 2016 and 2015.

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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

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

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

4. PLEDGES RECEIVABLE

The Foundation has pledge commitments outstanding from donors. These pledges are due in varying amounts through approximately 2019. Pledges are adjusted to the present value of the estimated future cash flows using a discount rate of 2.2% during 2016 and 2015, and also include an allowance for estimated uncollectible pledges.

As of June 30, 2016 and 2015, pledges receivable consist of the following:

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

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

6. ASSETS WHOSE USE IS LIMITED

The compositions of assets limited as to use at June 30, 2016 and June 30, 2015 are set forth in the following table:

	2016	2015
Cash	\$ 1,167,617	\$ 52,930
Equities	1,357,725	1,337,690
Exchange traded funds	1,451,853	1,214,652
Mutual funds	4,039,099	5,636,146
	<u>\$ 8,016,294</u>	<u>\$ 8,241,418</u>

Investment income consists of the following for June 30, 2016 and June 30, 2015, respectively:

	2016	2015
Interest and dividend income	\$ 127,369	\$ 123,890
Unrealized loss on investments	(209,234)	(967,927)
Realized gain (loss) on investments	(143,257)	1,031,741
	<u>\$ (225,122)</u>	<u>\$ 187,704</u>

7. TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Dede Wallace Campus	\$ 435,377	\$ 475,707
Research	1,590,260	1,050,186
CMS	154,238	229,524
	<u>\$ 2,179,875</u>	<u>\$ 1,755,417</u>

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

9. PERMANENTLY RESTRICTED NET ASSETS

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

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

10. ENDOWMENT FUNDS

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

The objective is to meet or exceed the market index, or blended market index, selected and agreed upon by the 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 unrestricted income and the unrealized gains and losses periodically. The Foundation has a policy of appropriating for distribution an amount of earned income based upon a stipulated formula.

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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

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

The Foundation did not incur changes in endowment net assets for the year ended June 30, 2016.

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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by law.

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.

11. 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.

CENTERSTONE FOUNDATION, INC.

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

- *Equity securities*: Valued at the closing price reported on the active market on which the individual securities are traded.
- *Exchange traded funds*: Valued at the daily closing price as reported by the fund on an active market on which the exchange-traded funds are traded. Exchange-traded funds are generally valued at their net asset value (NAV), although shares may trade at a premium or discount to the NAV depending on the liquidity of the underlying securities, market volatility, and other factors.
- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.
- *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.

If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

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Assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and 2015 are as follows:

Assets Whose Use Is Limited	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Equities				
Energy	\$ 88,766	\$ 88,766	\$ -0-	\$ -0-
Industry	167,708	167,708	-0-	-0-
Consumer Discretionary	223,496	223,496	-0-	-0-
Consumer Staples	209,897	209,897	-0-	-0-
Healthcare	141,476	141,476	-0-	-0-
Financials	57,916	57,916	-0-	-0-
Information Technology	198,684	198,684	-0-	-0-
Telecommunication	51,490	51,490	-0-	-0-
Foreign Common & ADR	218,293	218,293	-0-	-0-
Exchange Traded Funds				
Bond	283,710	283,710	-0-	-0-
Growth	215,234	215,234	-0-	-0-
Index	505,200	505,200	-0-	-0-
Value	447,709	447,709	-0-	-0-
Mutual Funds				
Growth	1,509,263	1,509,263	-0-	-0-
Value	750,174	750,174	-0-	-0-
International	49,028	49,028	-0-	-0-
Real Estate Investment Trusts	426,901	426,901	-0-	-0-
Fixed Income	1,303,732	1,303,732	-0-	-0-
	6,848,677	\$ 6,848,677	\$ -0-	\$ -0-
Cash	1,167,617			
	\$ 8,016,294			
Beneficial Interests - funds held by Community Foundation	\$ 1,230,716	\$ -0-	\$ -0-	\$ 1,230,716

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Assets Whose Use Is Limited	June 30, 2015			
	Total	Level 1	Level 2	Level 3
Equities				
Energy	\$ 104,118	\$ 104,118	\$ -0-	\$ -0-
Industry	163,272	163,272	-0-	-0-
Consumer Discretionary	194,719	194,719	-0-	-0-
Consumer Staples	146,375	146,375	-0-	-0-
Healthcare	181,699	181,699	-0-	-0-
Financials	88,719	88,719	-0-	-0-
Information Technology	172,500	172,500	-0-	-0-
Telecommunication	57,937	57,937	-0-	-0-
Foreign Common & ADR	228,351	228,351	-0-	-0-
Exchange Traded Funds				
Bond	280,665	280,665	-0-	-0-
Growth	222,755	222,755	-0-	-0-
Index	497,328	497,328	-0-	-0-
Value	213,904	213,904	-0-	-0-
Mutual Funds				
Blend	1,167,085	1,167,085	-0-	-0-
Growth	1,598,452	1,598,452	-0-	-0-
Value	740,503	740,503	-0-	-0-
International	432,979	432,979	-0-	-0-
Real Estate Investment Trusts	40,117	40,117	-0-	-0-
Fixed Income	1,657,010	1,657,010	-0-	-0-
	8,188,488	\$ 8,188,488	\$ -0-	\$ -0-
Cash	52,930			
	<u>\$ 8,241,418</u>			
Beneficial Interests - funds held				
by Community Foundation	\$ 1,324,448	\$ -0-	\$ -0-	\$ 1,324,448

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

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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

- Cash and cash equivalents, unconditional promises to give, accounts payable and accrued expenses: The carrying amount reported in the financial statements of financial position for cash and cash equivalents, unconditional promises to give, accounts payable and accrued expenses approximate fair value based on short-term maturity.

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

12. FUNCTIONAL EXPENSES

As noted in the policies, the Foundation provides supporting services to the Supported Organizations. Expenses related to providing these services are broken down between program services and administrative and general as follows for the years ended June 30, 2016 and 2015:

	2016	2015
Program services	\$ 578,725	\$ 349,909
Administrative and general	144,681	87,477
	<u>\$ 723,406</u>	<u>\$ 437,386</u>

13. COMMITMENTS AND CONTINGENCIES

Self-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, 2016 and 2015 aggregated approximately \$18,000 and \$11,000, respectively. The Foundation has purchased insurance, which limits its exposure on a per individual basis to \$175,000, with no annual aggregate basis stop loss provision.

Compensated Absences

Employees of the Foundation are entitled to paid time off depending on the length of service. The estimated value of accumulated paid time off as of June 30, 2016 and 2015 was approximately \$8,000 and \$4,000, respectively.