



CENTERSTONE

CENTERSTONE FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

CENTERSTONE FOUNDATION, INC.

TABLE OF CONTENTS JUNE 30, 2014 AND 2013

Page

Report of Independent Auditors	1
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Financial Statements

Statements of Financial Position	3
--	---

Statements of Activities and Change in Net Assets	4
---	---

Statements of Cash Flows	5
--------------------------------	---

Notes to Financial Statements	6
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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Centerstone of America, Inc.
Bloomington, Indiana

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, 2014 and 2013, and the related statements of activities 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.

Board of Directors
Centerstone of America, Inc.
Bloomington, Indiana

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.

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, 2014 and 2013, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blue & Co., LLC

Indianapolis, Indiana
November 13, 2014

CENTERSTONE FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2014 AND 2013

ASSETS

	2014	2013
Current assets		
Cash and cash equivalents	\$ 691,120	\$ 1,806,286
Unconditional promises to give, net	398,110	533,001
Total current assets	1,089,230	2,339,287
Property and equipment	15,612	10,612
Less accumulated depreciation	3,664	2,642
Property and equipment, net	11,948	7,970
Beneficial interest	1,379,816	1,262,322
Assets whose use is limited	8,043,228	6,796,670
Unconditional promises to give, net	547,557	1,292,709
Total assets	<u>\$ 11,071,779</u>	<u>\$ 11,698,958</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 5,004	\$ 2,000
Accrued payroll, benefits and taxes	3,991	15,014
Due to affiliated entities	1,752,410	1,536,427
Total current liabilities	1,761,405	1,553,441
Agency liabilities	242,218	513,477
Total liabilities	2,003,623	2,066,918
Net assets		
Unrestricted	2,031,618	868,405
Temporarily restricted	1,391,431	3,118,528
Permanently restricted	5,645,107	5,645,107
Total net assets	9,068,156	9,632,040
Total liabilities and net assets	<u>\$ 11,071,779</u>	<u>\$ 11,698,958</u>

See accompanying notes to financial statements.

CENTERSTONE FOUNDATION, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Unrestricted revenues		
Contributions	\$ 57,584	\$ 194,277
Unrestricted expenses		
Salary and fringe benefits	47,763	592,403
Printing and postage	509	8,600
Travel, meals and entertainment	2,052	27,416
Professional fees	12,761	83,037
Depreciation	1,091	1,023
Contribution	149,548	245,000
Other	24,125	294,868
Total unrestricted expenses	<u>237,849</u>	<u>1,252,347</u>
Operating income/(loss)	(180,265)	(1,058,070)
Nonoperating revenues		
Investment income, net	124,770	145,002
Realized gains on investments	278,213	92,322
Unrealized gains on investments	843,576	544,901
Other	96,919	-0-
Total nonoperating revenues	<u>1,343,478</u>	<u>782,225</u>
Excess of revenue over expenses	1,163,213	(275,845)
Other changes in unrestricted net assets		
Equity transfer of Centerstone Endowment Trust	-0-	7,830
Contributions to supported affiliates	(2,317,440)	(15,029)
Net assets released from restrictions	2,317,440	1,432,617
Total other changes in unrestricted net assets	<u>-0-</u>	<u>1,425,418</u>
Change in unrestricted net assets	1,163,213	1,149,573
Temporarily restricted net assets		
Contributions	472,849	594,813
Net assets released from restrictions	(2,317,440)	(1,432,617)
Equity transfer of Centerstone Endowment Trust	-0-	806,513
Change in value of beneficial interest	117,494	86,078
Change in temporarily restricted net assets	<u>(1,727,097)</u>	<u>54,787</u>
Permanently restricted		
Equity transfer of Centerstone Endowment Trust	<u>-0-</u>	<u>5,645,107</u>
Change in permanently restricted net assets	<u>-0-</u>	<u>5,645,107</u>
Change in net assets	(563,884)	6,849,467
Net assets		
Beginning of year	9,632,040	2,782,573
End of year	<u><u>\$ 9,068,156</u></u>	<u><u>\$ 9,632,040</u></u>

See accompanying notes to financial statements.

CENTERSTONE FOUNDATION, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Operating activities		
Change in net assets	\$ (563,884)	\$ 6,849,467
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	1,091	1,023
Provisions for uncollectible and discount to net present value on promises to give	(238,974)	(393,018)
Unrealized gain on assets whose use is limited	(843,576)	(544,901)
Realized gain on sale of assets whose use is limited	(278,213)	(92,322)
Change in beneficial interest	(117,494)	(1,262,322)
Equity transfer with Centerstone Endowment Trust	-0-	(6,459,450)
Restricted contributions and pledges	(472,849)	(594,813)
Changes in operating assets and liabilities		
Unconditional promises to give, net	1,119,017	731,715
Due to/from affiliates	215,983	2,273,567
Accounts payable	3,004	1,787
Accrued payroll, benefits and taxes	(11,023)	(79,013)
Net cash flows from operating activities	(1,186,918)	431,720
Investing activities		
Purchase of property and equipment	(5,000)	(5,500)
Proceeds from the sale or maturity of investments	2,438,416	244,216
Purchases of investments	(2,563,254)	(379,551)
Transferred assets whose use is limited, net	-0-	(6,024,112)
Change in agency liabilities	(271,259)	(2,938,745)
Net cash flows from investing activities	(401,097)	(9,103,692)
Financing activities		
Equity transfer of Centerstone Endowment Trust	-0-	6,459,450
Restricted contributions and pledges	472,849	594,813
Net cash flows from financing activities	472,849	7,054,263
Net change in cash and cash equivalents	(1,115,166)	(1,617,709)
Cash and cash equivalents		
Beginning of year	1,806,286	3,423,995
End of year	<u>\$ 691,120</u>	<u>\$ 1,806,286</u>
Noncash financing activities		
Equity transfer of Centerstone Endowment Trust	<u>\$ -0-</u>	<u>\$ 6,459,450</u>

See accompanying notes to financial statements.

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

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 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 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 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, 2014 AND 2013

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.

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

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.

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 as of June 30, 2014 and June 30, 2013 was approximately \$8,043,000 and \$6,797,000, respectively.

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 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. Unrestricted net assets were approximately \$2,032,000 and \$868,000 as of June 30, 2014 and 2013, respectively.

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

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 \$1,391,000 and \$3,119,000 as of June 30, 2014 and 2013, respectively.

Permanently Restricted Net Assets

The Center'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 both June 30, 2014 and 2013.

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:

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

<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.

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. Advertising costs for the Foundation totaled approximately \$100 and \$15,000 for 2014 and 2013, respectively.

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 equity transfers from affiliated parties, 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.

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

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, 2014 and 2013, 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, 2013. 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 2013 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 13, 2014.

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

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 \$1,752,000 as of June 30, 2014 and a net payable of approximately 1,536,000 as of June 30, 2013. For the years ended June 30, 2014 and 2013, 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, 2014 and 2013 is approximately \$242,000 and \$513,000, 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, 2014 and 2013.

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

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

	2014	2013
Beneficial interest in Community Foundation of Middle Tennessee, beginning of year	\$1,262,322	\$ -0-
Transfer from Centerstone of Tennessee, Inc.	-0-	1,176,244
Investment expenses	(2,491)	(5,201)
Investment gain	186,085	153,139
Grants paid out	(66,100)	(61,860)
Beneficial interest in Community Foundation of Middle Tennessee, end of year	<u>\$1,379,816</u>	<u>\$1,262,322</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 is no observable market transactions, Centerstone Foundation, Inc., 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 measure is a level 3 measure 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 2018. Pledges are adjusted to the present value of the estimated future cash flows using a discount rate of 6% and also include an allowance for estimated uncollectible pledges.

As of June 30, 2014 and 2013, pledges receivable consist of the following:

	2014	2013
Promises receivable in less than one year	\$ 468,857	\$ 627,757
Promises receivable in one to five years	715,050	1,695,750
Net present value discount	(88,633)	(294,940)
Allowance for uncollectible pledges	(149,607)	(202,857)
	<u>\$ 945,667</u>	<u>\$ 1,825,710</u>

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

5. ASSETS WHOSE USE IS LIMITED

The compositions of assets limited as to use at June 30, 2014 and June 30, 2013 are set forth in the following table:

	2014	2013
Cash and cash equivalents	\$ 50,613	\$ 67,879
Equities	2,532,523	2,050,981
Exchange traded funds	1,053,445	643,949
Mutual funds	4,406,647	4,033,861
	<u>\$ 8,043,228</u>	<u>\$ 6,796,670</u>

Investment income consists of the following for June 30, 2014 and June 30, 2013:

	2014	2013
Interest and dividend income	\$ 124,770	\$ 145,002
Unrealized gain on investments	843,576	544,901
Realized gain on investments	278,213	92,322
	<u>\$ 1,246,559</u>	<u>\$ 782,225</u>

6. TEMPORARILY RESTRICTED NET ASSETS

The Foundation's temporarily restricted net assets were comprised of the following as of June 30, 2014 and 2013:

	2014	2013
Dede Wallace Campus	\$ 945,508	\$ 2,583,004
Research	445,923	535,524
	<u>\$ 1,391,431</u>	<u>\$ 3,118,528</u>

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

7. PERMANENTLY RESTRICTED NET ASSETS

The Foundation's permanent restricted net assets were comprised of the following as of June 30, 2014 and 2013:

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

8. 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, 2014 AND 2013

The endowment net assets composition by type of fund as of June 30, 2014 and 2013:

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, 2014.

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.

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

9. 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.

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, 2014.

- *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.

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

- *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. Assets and liabilities measured at fair value on a recurring basis as of June 30, 2014 and 2013 are as follows:

Assets Whose Use Is Limited	June 30, 2014			
	Total	Level 1	Level 2	Level 3
Equities				
Energy	\$ 228,231	\$ 228,231	\$ -0-	\$ -0-
Industry	476,345	476,345	-0-	-0-
Consumer Discretionary	290,193	290,193	-0-	-0-
Consumer Staples	285,193	285,193	-0-	-0-
Healthcare	272,540	272,540	-0-	-0-
Financials	101,248	101,248	-0-	-0-
Information Technology	326,147	326,147	-0-	-0-
Telecommunication	113,557	113,557	-0-	-0-
Foreign Common & ADR	439,069	439,069	-0-	-0-
Exchange Traded Funds				
Bond	257,088	257,088	-0-	-0-
Growth	182,165	182,165	-0-	-0-
Index	425,914	425,914	-0-	-0-
Value	188,278	188,278	-0-	-0-
Mutual Funds				
Blend	856,587	856,587	-0-	-0-
Growth	1,272,981	1,272,981	-0-	-0-
Value	625,581	625,581	-0-	-0-
International	393,850	393,850	-0-	-0-
Real Estate Investment Trusts	82,760	82,760	-0-	-0-
Fixed Income	1,174,888	1,174,888	-0-	-0-
	<u>7,992,615</u>	<u>\$ 7,992,615</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Cash and Cash Equivalents	<u>50,613</u>			
	<u>\$ 8,043,228</u>			
Beneficial Interest	<u>\$ 1,379,816</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,379,816</u>

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

Assets Whose Use Is Limited	June 30, 2013			
	Total	Level 1	Level 2	Level 3
Equities				
Energy	\$ 143,536	\$ 143,536	\$ -0-	\$ -0-
Industry	421,554	421,554	-0-	-0-
Consumer Discretionary	268,610	268,610	-0-	-0-
Consumer Staples	274,400	274,400	-0-	-0-
Healthcare	192,830	192,830	-0-	-0-
Financials	86,536	86,536	-0-	-0-
Information Technology	255,675	255,675	-0-	-0-
Telecommunication	42,160	42,160	-0-	-0-
Foreign Common & ADR	365,680	365,680	-0-	-0-
Exchange Traded Funds				
Growth	145,940	145,940	-0-	-0-
Index	347,823	347,823	-0-	-0-
Value	150,186	150,186	-0-	-0-
Mutual Funds				
Blend	994,154	994,154	-0-	-0-
Growth	1,055,963	1,055,963	-0-	-0-
Value	344,683	344,683	-0-	-0-
Real Estate Investment Trusts	72,704	72,704	-0-	-0-
Fixed Income	1,566,357	1,566,357	-0-	-0-
	<u>6,728,791</u>	<u>\$ 6,728,791</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Cash and Cash Equivalents	<u>67,879</u>			
	<u>\$ 6,796,670</u>			
Beneficial Interest	<u>\$ 1,262,322</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,262,322</u>

CENTERSTONE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

10. 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, general and administrative, and fundraising as follows for the years ended June 30, 2014 and 2013:

	2014	2013
Program services	\$ 190,055	\$ 990,208
Special event - fundraising	224	11,670
Administrative and general	47,570	250,469
	<u>\$ 237,849</u>	<u>\$ 1,252,347</u>

11. 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, 2014 and 2013 aggregated approximately \$8,000 and \$49,000, 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, 2014 and 2013 was approximately \$2,000.