CENTERSTONE FOUNDATION, INC.

Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

LBMC MAKE A GOOD BUSINESS BETTER

CENTERSTONE FOUNDATION, INC.

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MAKE A GOOD BUSINESS BETTER

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, 2018 and 2017, 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.

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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

LBMC, PC

Brentwood, Tennessee
November 28, 2018

CENTERSTONE FOUNDATION, INC.

Statements of Financial Position

June 30, 2018 and 2017

Assets

	2018	2017
Current assets:		
Cash and cash equivalents	$ 682,201	$ 681,680
Other receivables	8,866	22,295
Due from affiliated entities	-	15,159
Unconditional promises to give, net	294,261	185,105
Total current assets	985,328	904,239
Unconditional promises to give, net	59,782	134,964
Beneficial interest	1,337,837	1,313,526
Assets whose use is limited	9,248,032	8,774,674
Total assets	$ 11,630,979	$ 11,127,403

Liabilities and Net Assets

	2018	2017
Current liabilities:		
Accounts payable and accrued expenses	$ 13,941	$ 12,820
Due to affiliated entities	2,580,555	1,256,685
Accrued payroll, benefits and taxes	10,695	9,256
Total current liabilities	2,605,191	1,278,761
Agency liabilities	-	34,676
Total liabilities	2,605,191	1,313,437
Net assets:		
Unrestricted	3,297,698	3,284,898
Temporarily restricted	22,983	883,961
Permanently restricted	5,705,107	5,645,107
Total net assets	9,025,788	9,813,966
Total liabilities and net assets	$ 11,630,979	$ 11,127,403

See accompanying notes to the financial statements.

CENTERSTONE FOUNDATION, INC.

Statements of Activities and Changes In Net Assets

Years ended June 30, 2018 and 2017

	2018	2017
Unrestricted revenues:		
Contributions	$ 2,050,959	$ 685,842
Net assets released from restrictions	1,609,166	2,209,302
Total unrestricted revenues	3,660,125	2,895,144
Unrestricted expenses:		
Salary and fringe benefits	759,586	156,570
Printing and postage	13,865	3,359
Travel, meals and entertainment	59,574	20,436
Professional fees	33,897	28,255
Contributions	1,816,391	855,721
Other	255,747	48,540
Total unrestricted expenses	2,939,060	1,112,881
Operating gain	721,065	1,782,263
Nonoperating revenues (expenses):		
Investment income, net	138,045	131,285
Realized gain on investments	900,741	1,539,316
Unrealized loss on investments	(243,250)	(607,653)
Other	105,365	301,054
Total nonoperating revenues (expenses)	900,901	1,364,002
Excess of revenue over expenses	1,621,966	3,146,265
Other changes in unrestricted net assets:		
Contributions to supported affiliates	(1,609,166)	(2,209,302)
Total other changes in unrestricted net assets	(1,609,166)	(2,209,302)
Change in unrestricted net assets	12,800	936,963
Temporarily restricted net assets:		
Contributions	723,877	830,578
Net assets released from restrictions	(1,609,166)	(2,209,302)
Change in value of beneficial interest	24,311	82,810
Change in temporarily restricted net assets	(860,978)	(1,295,914)
Permanently restricted net assets:		
Contributions	60,000	-
Change in permanently restricted net assets	60,000	-
Change in net assets	(788,178)	(358,951)
Net assets:		
Net assets at beginning of year	9,813,966	10,172,917
Net assets at end of year	$ 9,025,788	$ 9,813,966

See accompanying notes to the financial statements.

CENTERSTONE FOUNDATION, INC.

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Operating activities:		
Change in net assets	$ (788,178)	$ (358,951)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Loss on disposal of assets	-	10,500
Realized gain on sale of investments	(900,741)	(1,539,316)
Unrealized loss on investments	243,250	607,653
Change in beneficial interest	(24,311)	(82,810)
Provisions for uncollectible pledges and discount to net present value on promises to give	(228,732)	(181,605)
Restricted contributions and pledges	(783,877)	(830,578)
Changes in operating assets and liabilities:		
Due to/from affiliates	1,339,029	1,238,465
Other receivables	13,429	(22,295)
Unconditional promises to give, net	194,758	168,656
Accounts payable and accrued expenses	1,121	(13,304)
Accrued payroll, benefits and taxes	1,439	2,021
Net cash used by operating activities	(932,813)	(1,001,564)
Investing activities:		
Proceeds from the sale or maturity of investments	4,632,922	7,676,317
Purchases of investments	(4,448,789)	(7,503,034)
Change in agency liabilities	(34,676)	(1,277)
Net cash provided by investing activities	149,457	172,006
Financing activities:		
Restricted contributions and pledges	783,877	830,578
Net cash provided by financing activities	783,877	830,578
Increase in cash and cash equivalents	521	1,020
Cash and cash equivalents at beginning of year	681,680	680,660
Cash and cash equivalents at end of year	$ 682,201	$ 681,680

See accompanying notes to financial statements

(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., Centerstone of Kentucky, 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 "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 and cash flows 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. Centerstone of America, Inc. (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. Centerstone of Kentucky, Inc. is a not-for-profit CMHC with various locations in Kentucky. 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.

(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:

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.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that may or will be met either by action of the Foundation and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. Included in this classification are endowment funds, which are subject to the restrictions of gift instruments requiring that the principal be maintained in perpetuity, and invested for the purpose of producing present and future income.

(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. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Unrealized and realized gains and losses on investments, interest, and dividends from all investments are reported as a component of the performance indicator unless the income is restricted by donor or law.

(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 through an equity transfer, 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, the 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 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.

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.

(f) Property and equipment and depreciation

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

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

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over (under) expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained; expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(g) 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.

(h) Contributions

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

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restriction.

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

The 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.

(i) Donor support

The Foundation reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Absent explicit donor stipulations 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 temporarily restricted net assets to unrestricted net assets at that time.

(j) 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 principles generally accepted in the United States of America ("GAAP") require management to evaluate tax positions taken and recognize a tax liability if it is more likely than not that an uncertain tax position would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Foundation, and has concluded that as of June 30, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying 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, 2017. 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).

(k) Performance indicator

The 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.

(l) New accounting pronouncement

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

- **Reduction in the number of net asset classifications from three to two: net assets with donor restrictions and net assets without donor restrictions. Differences in the nature of donor restrictions will be disclosed in the notes, with an emphasis on how and when the resources can be used.**

- Organizations will be required to disclose, either on the face of the statements or in notes, the extent to which the statement of financial position comprises financial assets, the extent to which those assets can be converted to cash within one year, and any limitations that would preclude their current use.

- In addition to reporting expenses by functional classifications under current requirements, organizations will be required to provide information about expenses by their nature through an analysis demonstrating how the nature of expenses relate to the programs and supporting activities. Additional disclosures about the methods used to allocate costs among program and support functions will also be required.

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

(m) 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.

(n) Events occurring after reporting date

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

(3) 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, 2018 and 2017. The following schedule summarizes the investment expenses and earnings and its classification in the statements of activities and changes in net assets.

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

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 the FASB ASC 820, *Fair Value Measurement*.

(4) Assets whose use is limited

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

	2018	2017
Cash	$ 69,152	$ 246,449
Mutual funds	8,798,989	6,373,902
Exchange-traded funds	379,891	2,154,323
	$ 9,248,032	$ 8,774,674

(5) 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, 2018 and 2017.

- *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 net asset value ("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 and liabilities measured at fair value on a recurring basis at June 30, 2018 and 2017:

	Fair Value Measurements as of June 30, 2018 using the following inputs			
	Total	Level 1	Level 2	Level 3
Assets whose use is limited				
Exchange-traded funds				
Index	$ 379,891	$ 379,891	$ -	$ -
Mutual funds				
Growth	2,595,931	2,595,931	-	-
Index	1,023,362	1,023,362	-	-
Value	1,845,268	1,845,268	-	-
International	655,670	655,670	-	-
Emerging markets	138,551	138,551	-	-
Fixed income	2,540,207	2,540,207	-	-
	9,178,880	$ 9,178,880	$ -	$ -
Cash	69,152			
	$ 9,248,032			
Beneficial interest - funds held by Community Foundation	$ 1,337,837	$ -	$ -	$ 1,337,837

	Fair Value Measurements as of June 30, 2017 using the following inputs			
	Total	Level 1	Level 2	Level 3
Assets whose use is limited				
Exchange-traded funds				
Growth	$ 239,375	$ 239,375	$ -	$ -
Index	1,427,846	1,427,846	-	-
Value	487,102	487,102	-	-
Mutual funds				
Growth	1,623,276	1,623,276	-	-
Value	1,263,427	1,263,427	-	-
International	752,196	752,196	-	-
Fixed income	2,735,003	2,735,003	-	-
	8,528,225	$ 8,528,225	$ -	$ -
Cash	246,449			
	$ 8,774,674			
Beneficial interest - funds held by Community Foundation	$ 1,313,526	$ -	$ -	$ 1,313,526

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 significant transfers between levels 1 and 2 during 2018 and 2017.

(6) 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.

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

(7) Net assets

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

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

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

	2018	2017
Permanent endowments	$ 4,705,107	$ 4,645,107
Beneficial interest	1,000,000	1,000,000
	$ 5,705,107	$ 5,645,107

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

(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 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 unrestricted income 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.

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

	2018	2017
Permanent endowments	$ 4,705,107	$ 4,645,107
Beneficial interest	1,000,000	1,000,000
	$ 5,705,107	$ 5,645,107

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.

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.

(9) Functional expenses

The Foundation provides supporting services to the Supported Organizations. Expenses related to providing these services for 2018 and 2017 are as follows:

	2018	2017
Program services	$ 2,079,607	$ 951,557
General and administrative	859,453	161,324
	$ 2,939,060	$ 1,112,881

(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, 2018 and 2017. For the years ended June 30, 2018 and 2017, the Foundation did not incur affiliated management fees for services provided by the Parent.

The Foundation acts as the agent for its Supported Organizations and recorded a related agency liability as of June 30, 2017. No agency liability was recorded as of June 30, 2018.

(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, 2018 and 2017 aggregated approximately $67,000 and $17,000, respectively. The Foundation has purchased insurance, which limits its exposure on a per individual basis to $250,000, with no annual aggregate basis stop loss provision.