

CENTERSTONE FOUNDATION, INC.

Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

LBMC

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BUSINESS **BETTER**

CENTERSTONE FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Centerstone Foundation, Inc. (the "Foundation"), which comprise the statement of financial position as of June 30, 2017, the related statements of activities and changes in net assets and cash flows for the year 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 audit. We conducted our audit 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 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, 2017, and the changes in its net assets and its cash flows for the year 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.

Prior Period Financial Statements

The financial statements of the Foundation as of and for the year ended June 30, 2016, were audited by other auditors whose report dated November 29, 2016, expressed an unmodified opinion on those statements.

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Brentwood, Tennessee
November 30, 2017

CENTERSTONE FOUNDATION, INC.

Statements of Financial Position

June 30, 2017 and 2016

	<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets:			
Cash and cash equivalents	\$	681,680	\$ 680,660
Other receivables		22,295	-
Due from affiliated entities		15,159	-
Unconditional promises to give, net		<u>185,105</u>	<u>225,280</u>
Total current assets		904,239	905,940
Property and equipment, net		-	10,500
Unconditional promises to give, net		134,964	81,840
Beneficial interest		1,313,526	1,230,716
Assets whose use is limited		<u>8,774,674</u>	<u>8,016,294</u>
Total assets	\$	<u>11,127,403</u>	<u>\$ 10,245,290</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$	12,820	\$ 26,124
Due to affiliated entities		1,256,685	3,061
Accrued payroll, benefits and taxes		<u>9,256</u>	<u>7,235</u>
Total current liabilities		1,278,761	36,420
Agency liabilities		<u>34,676</u>	<u>35,953</u>
Total liabilities		1,313,437	72,373
Net assets:			
Unrestricted		3,284,898	2,347,935
Temporarily restricted		883,961	2,179,875
Permanently restricted		<u>5,645,107</u>	<u>5,645,107</u>
Total net assets		<u>9,813,966</u>	<u>10,172,917</u>
Total liabilities and net assets	\$	<u>11,127,403</u>	<u>\$ 10,245,290</u>

See accompanying notes to the financial statements.

CENTERSTONE FOUNDATION, INC.

Statements of Activities and Changes In Net Assets

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted revenues:		
Contributions	\$ 685,842	\$ 541,175
Net assets released from restrictions	2,209,302	1,113,491
Total unrestricted revenues	<u>2,895,144</u>	<u>1,654,666</u>
Unrestricted expenses:		
Salary and fringe benefits	156,570	143,174
Printing and postage	3,359	585
Travel, meals and entertainment	20,436	15,022
Professional fees	28,255	23,117
Depreciation	-	290
Contribution	855,721	510,321
Other	48,540	30,897
Total unrestricted expenses	<u>1,112,881</u>	<u>723,406</u>
Operating gain	1,782,263	931,260
Nonoperating revenues (expenses):		
Investment income, net	131,285	127,369
Realized gain (loss) on investments	1,539,316	(143,257)
Unrealized loss on investments	(607,653)	(209,234)
Other	301,054	212,406
Total nonoperating revenues (expenses)	<u>1,364,002</u>	<u>(12,716)</u>
Excess of revenue over expenses	3,146,265	918,544
Other changes in unrestricted net assets:		
Contributions to supported affiliates	(2,209,302)	(1,416,788)
Net assets released from restrictions	-	303,297
Total other changes in unrestricted net assets	<u>(2,209,302)</u>	<u>(1,113,491)</u>
Change in unrestricted net assets	936,963	(194,947)
Temporarily restricted net assets:		
Contributions	830,578	1,934,978
Net assets released from restrictions	(2,209,302)	(1,416,788)
Change in value of beneficial interest	82,810	(93,732)
Change in temporarily restricted net assets	<u>(1,295,914)</u>	<u>424,458</u>
Change in net assets	(358,951)	229,511
Net assets:		
Net assets at beginning of year	10,172,917	9,943,406
Net assets at end of year	<u>\$ 9,813,966</u>	<u>\$ 10,172,917</u>

See accompanying notes to the financial statements.

CENTERSTONE FOUNDATION, INC.

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating activities:		
Change in net assets	\$ (358,951)	\$ 229,511
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	-	290
Loss on disposal of assets	10,500	-
Realized (gain) loss on sale of investments	(1,539,316)	143,257
Unrealized loss on investments	607,653	209,234
Change in beneficial interest	(82,810)	93,732
Provisions for uncollectible and discount to net present value on promises to give	(181,605)	40,889
Restricted contributions and pledges	(830,578)	(1,934,978)
Changes in operating assets and liabilities		
Due to/from affiliates	1,238,465	(1,101,874)
Other receivables	(22,295)	-
Unconditional promises to give, net	168,656	232,381
Accounts payable and accrued expenses	(13,304)	6,000
Accrued payroll, benefits and taxes	2,021	1,301
Other long-term liabilities	-	10,120
Net cash used by operating activities	<u>(1,001,564)</u>	<u>(2,070,137)</u>
Investing activities:		
Proceeds from the sale or maturity of investments	7,676,317	2,852,977
Purchases of investments	(7,503,034)	(2,980,345)
Change in agency liabilities	(1,277)	(219,333)
Net cash provided (used) by investing activities	<u>172,006</u>	<u>(346,701)</u>
Financing activities:		
Restricted contributions and pledges	830,578	1,934,978
Net cash provided by financing activities	<u>830,578</u>	<u>1,934,978</u>
 Increase (decrease) in cash and cash equivalents	 1,020	 (481,860)
Cash and cash equivalents at beginning of year	680,660	1,162,520
Cash and cash equivalents at end of year	<u>\$ 681,680</u>	<u>\$ 680,660</u>

See accompanying notes to financial statements

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

June 30, 2017 and 2016

(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:

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

June 30, 2017 and 2016

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.

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

June 30, 2017 and 2016

(e) Assets whose use is limited

During fiscal year 2013, the Foundation received the 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, 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 4.5% 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 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.

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

June 30, 2017 and 2016

(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.

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

June 30, 2017 and 2016

(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 ("GAAP") in the United States of America 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, 2017 and 2016, 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, 2016. 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) 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.

(m) Events occurring after reporting date

The Foundation has evaluated events and transactions that occurred between June 30, 2017 and November 30, 2017, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

June 30, 2017 and 2016

(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, 2017 and 2016. The following schedule summarizes the investment expenses and earnings and its classification in the statements of activities and changes in net assets.

	<u>2017</u>	<u>2016</u>
Beneficial interest in Community Foundation of Middle Tennessee, beginning of year	\$ 1,230,716	\$ 1,324,448
Investment expenses	(10,204)	(5,073)
Investment gain (loss)	156,214	(23,259)
Grants paid out	<u>(63,200)</u>	<u>(65,400)</u>
Beneficial interest in Community Foundation of Middle Tennessee, end of year	\$ <u>1,313,526</u>	\$ <u>1,230,716</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 the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurement*.

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

June 30, 2017 and 2016

(4) Assets whose use is limited

The composition of assets whose use is limited at June 30, 2017 and 2016 is set forth in the following table:

	<u>2017</u>	<u>2016</u>
Cash	\$ 246,449	\$ 1,167,617
Mutual funds	6,373,902	4,039,098
Common stocks	-	1,357,726
Exchange-traded funds	<u>2,154,323</u>	<u>1,451,853</u>
	<u>\$ 8,774,674</u>	<u>\$ 8,016,294</u>

(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.

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

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Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

- ***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.
- ***Common stocks:*** 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 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.
- ***Money market mutual funds:*** Generally transact subscription and redemption activity at a \$1.00 stable NAV however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.
- ***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.

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

June 30, 2017 and 2016

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, 2017 and 2016:

Fair Value Measurements as of June 30, 2017 using the following inputs				
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets whose use is limited				
Exchange-traded funds				
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	<u>2,735,003</u>	<u>2,735,003</u>	<u>-</u>	<u>-</u>
	8,528,225	\$ <u>8,528,225</u>	\$ <u>-</u>	\$ <u>-</u>
Cash	<u>246,449</u>			
	<u>\$ 8,774,674</u>			
Beneficial interest - funds held by Community Foundation	<u>\$ 1,313,526</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,313,526</u>

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

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**Fair Value Measurements as of
June 30, 2016 using the following inputs**

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets whose use is limited				
Common stocks				
Energy	\$ 88,766	\$ 88,766	\$ -	\$ -
Industrial	167,708	167,708	-	-
Consumer discretionary	223,496	223,496	-	-
Consumer staples	209,897	209,897	-	-
Healthcare	141,476	141,476	-	-
Financials	57,916	57,916	-	-
Information technology	198,684	198,684	-	-
Telecommunication	51,490	51,490	-	-
Foreign common	218,293	218,293	-	-
Exchange-traded funds				
Bond	283,710	283,710	-	-
Growth	215,234	215,234	-	-
Index	505,200	505,200	-	-
Value	447,709	447,709	-	-
Mutual funds				
Growth	1,509,263	1,509,263	-	-
Value	750,174	750,174	-	-
International	49,028	49,028	-	-
Real-estate investment trust	426,901	426,901	-	-
Fixed income	<u>1,303,732</u>	<u>1,303,732</u>	-	-
	6,848,677	\$ <u>6,848,677</u>	\$ -	\$ -
Cash	<u>1,167,617</u>			
	<u>\$ 8,016,294</u>			
Beneficial interest - funds held by Community Foundation	<u>\$ 1,230,716</u>	\$ -	\$ -	<u>\$ 1,230,716</u>

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 2017 and 2016.

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

June 30, 2017 and 2016

(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.

	<u>2017</u>	<u>2016</u>
Promises receivable in less than one year	\$ 409,375	\$ 479,486
Promises receivable in one to five years	147,800	245,805
Less net present value discount	(12,836)	(19,715)
Less allowance for uncollectible pledges	<u>(224,270)</u>	<u>(398,456)</u>
	<u>\$ 320,069</u>	<u>\$ 307,120</u>

(7) Net assets

The temporarily restricted net assets are available for the following purposes as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Dede Wallace Campus	\$ 222,164	\$ 435,377
Research	638,814	1,590,260
Centerstone Military Services Executive Director Position	<u>22,983</u>	<u>154,238</u>
	<u>\$ 883,961</u>	<u>\$ 2,179,875</u>

Permanently restricted net assets consist of the following as of June 30, 2017 and 2016:

Permanent endowments	\$ 4,645,107
Beneficial interest	<u>1,000,000</u>
	<u>\$ 5,645,107</u>

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.

CENTERSTONE FOUNDATION, INC.

Notes to the Financial Statements

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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, 2017 and 2016:

Permanently restricted net assets	
Donor-restricted endowment funds	\$ 4,645,107
Beneficial interest funds	<u>1,000,000</u>
Total endowment funds	\$ <u>5,645,107</u>

The Foundation incurred no changes in endowment net assets for the years ended June 30, 2017 and 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.

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 the Financial Statements

June 30, 2017 and 2016

(9) Functional expenses

The Foundation provides supporting services to the Supported Organizations. Expenses related to providing these services for 2017 and 2016 are as follows:

	2017	2016
Program services	\$ 951,557	\$ 578,725
General and administrative	<u>161,324</u>	<u>144,681</u>
	<u>\$ 1,112,881</u>	<u>\$ 723,406</u>

(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, 2017 and 2016. For the years ended June 30, 2017 and 2016, 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 has recorded a related agency liability as of June 30, 2017 and 2016.

(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, 2017 and 2016 aggregated approximately \$17,000 and \$18,000, respectively. The Foundation has purchased insurance, which limits its exposure on a per individual basis to \$225,000, with no annual aggregate basis stop loss provision.