



---

# CENTERSTONE

**CENTERSTONE OF TENNESSEE, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**JUNE 30, 2009 AND 2008**

*CPAs / ADVISORS*

 **blue**

# CENTERSTONE OF TENNESSEE, INC.

## TABLE OF CONTENTS JUNE 30, 2009 AND 2008

	Page
<b>Report of Independent Auditors .....</b>	<b>1</b>
<b>Financial Statements</b>	
Consolidated Statements of Financial Position .....	3
Consolidated Statements of Activities and Changes in Net Assets .....	4
Consolidated Statements of Cash Flows .....	5
Notes to Consolidated Financial Statements .....	6
<b>Supplementary Information</b>	
Consolidating Statement of Financial Position – June 30, 2009 .....	22
Consolidating Statement of Activities and Changes in Net Assets – Year Ended June 30, 2009 .....	23
Consolidating Statement of Financial Position – June 30, 2008 .....	25
Consolidating Statement of Activities and Changes in Net Assets – Year Ended June 30, 2008 .....	26
Schedule of Expenditures of Federal Awards – Year Ended June 30, 2009.....	28
Schedule of Expenditures of State Financial Assistance – Year Ended June 30, 2009.....	31
<b>Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>.....</b>	<b>32</b>
<b>Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and on the Internal Control Over Compliance in Accordance With OMB Circular A-133 .....</b>	<b>34</b>
<b>Schedule of Findings and Questioned Costs –Year Ended June 30, 2009 .....</b>	<b>36</b>



Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282  
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated statement of financial position of Centerstone of Tennessee, Inc. (the Center) as of June 30, 2009 and the related statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's consolidated financial statements based on our audit. The consolidated financial statements of the Center as of June 30, 2008, were audited by other auditors whose report dated November 17, 2008, expressed an unqualified opinion on those consolidated statements.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2009, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Notes 1 and 2 to the consolidated financial statements, the Center is part of an affiliated group of entities and has entered into transactions with the group members.

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

In accordance with *Government Auditing Standards*, we have issued our report dated February 16, 2010, on our consideration of Centerstone of Tennessee, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements of Centerstone of Tennessee, Inc. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic consolidated financial statements of Centerstone of Tennessee, Inc. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**Blue & Co., LLC**

February 16, 2010

# CENTERSTONE OF TENNESSEE, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2009 AND 2008

<b>ASSETS</b>		
	2009	2008
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,579,969	\$ 6,201,846
Restricted cash	39,694	38,736
Unconditional promises to give, current	1,027,363	1,146,140
Accounts receivable, net	2,703,820	4,387,239
Other receivables	3,536,951	4,153,620
Due from affiliated entities	1,679,284	585,431
Prepaid expenses and other current assets	277,604	755,773
Total current assets	11,844,685	17,268,785
<b>Property and equipment, net</b>	27,658,579	27,944,777
<b>Other assets</b>	2,054,116	2,054,225
<b>Unconditional promises to give</b>	1,751,942	2,917,868
<b>Assets whose use is limited</b>	4,644,149	6,341,547
Total assets	<u>\$ 47,953,471</u>	<u>\$ 56,527,202</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Current portion of long term debt	\$ 469,771	\$ 1,143,516
Accounts payable and accrued expenses	2,093,107	2,619,910
Accrued payroll, benefits and taxes	5,064,800	5,970,396
Due to affiliated entities	900,588	-0-
Estimated third party settlements	2,196,750	-0-
Other current liabilities	109,944	-0-
Total current liabilities	10,834,960	9,733,822
<b>Long term debt, net of current portion</b>	2,573,953	2,932,653
Total liabilities	13,408,913	12,666,475
<b>Net assets</b>		
Unrestricted	25,442,230	33,494,214
Temporarily restricted	4,786,534	4,627,571
Permanently restricted	4,315,794	5,738,942
Total net assets	34,544,558	43,860,727
Total liabilities and net assets	<u>\$ 47,953,471</u>	<u>\$ 56,527,202</u>

See accompanying notes to consolidated financial statements.

# CENTERSTONE OF TENNESSEE, INC.

## CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
<b>Revenue and other support</b>		
Net client service revenue	\$ 43,947,997	\$ 50,015,664
Public support	20,201,669	18,578,739
Net assets released from restriction	873,794	635,101
Other	1,069,688	512,857
Total revenue and other support	66,093,148	69,742,361
<b>Expenses</b>		
Salary and fringe benefits	45,575,398	47,306,134
Telephone	1,825,276	1,537,039
Travel	1,609,923	1,553,116
Drugs and supplies	3,884,796	4,110,990
Printing and postage	277,012	321,143
Contracted services	4,468,354	3,564,267
Purchased services	2,656,316	2,001,936
Affiliated management fees	1,511,956	-0-
Rents and leases	306,898	988,261
Utilities	2,982,764	2,999,800
Repairs and maintenance	528,591	375,518
Depreciation and amortization	2,447,330	2,239,273
Insurance	556,637	654,869
Bad debt	3,605,105	269,724
Interest	99,177	223,038
Miscellaneous	1,694,956	1,885,529
Total expenses	74,030,489	70,030,637
Operating loss	(7,937,341)	(288,276)
<b>Nonoperating revenues (expenses)</b>		
Gain/(loss) on disposal of equipment	(21,713)	300
Loss on investments	(1,856)	(1,100)
Interest and dividend income	41,658	272,790
Other nonoperating income (expense)	(132,732)	(252,054)
Total nonoperating revenues and expenses	(114,643)	19,936
Change in unrestricted net assets	(8,051,984)	(268,340)
<b>Temporarily restricted net assets</b>		
Contributions and pledges	732,757	1,187,218
Transfer from permanently restricted	300,000	300,000
Net assets released from restriction	(873,794)	(635,101)
Change in temporarily restricted net assets	158,963	852,117
<b>Permanently restricted net assets</b>		
Loss on investments	(1,269,857)	(246,685)
Transfer to temporarily restricted	(300,000)	(300,000)
Interest and dividend income	146,709	-0-
Change in permanently restricted net assets	(1,423,148)	(546,685)
Change in net assets	(9,316,169)	37,092
Net assets, beginning of year	43,860,727	43,823,635
Net assets, end of year	\$ 34,544,558	\$ 43,860,727

See accompanying notes to consolidated financial statements.

# CENTERSTONE OF TENNESSEE, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
<b>Operating activities</b>		
Change in net assets	\$ (9,316,169)	\$ 37,092
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	2,447,330	2,239,273
Bad debt	3,605,105	269,724
Unrealized losses on investments	45,441	1,098
Allowance on unconditional promises to give	291,608	419,626
(Gain)/loss on disposal of assets	21,713	(300)
Changes in operating assets and liabilities		
Accounts receivable, net	(1,921,686)	1,327,177
Other receivables	616,669	19,957
Prepaid expenses and other current assets	478,169	143,620
Other assets	109	(351)
Due from affiliate entities	(193,265)	(41,229)
Promises to give, net	993,095	(363,932)
Accounts payable and accrued expenses	(526,803)	98,856
Accrued payroll, benefits and taxes	(905,596)	(85,588)
Other liabilities	2,306,694	-0-
Net cash flows from operating activities	(2,057,586)	4,065,023
<b>Investing activities</b>		
Purchase of property and equipment	(2,273,727)	(7,446,763)
Change in assets whose use is limited, net	1,742,839	(144,158)
Net cash flows from investing activities	(530,888)	(7,590,921)
<b>Financing activities</b>		
Proceeds from borrowings	-0-	50,000
Principal payments on long term debt	(1,032,445)	(657,763)
Net cash flows from financing activities	(1,032,445)	(607,763)
Net change in cash and cash equivalents	(3,620,919)	(4,133,661)
<b>Cash and cash equivalents, beginning of year</b>	6,240,582	10,374,243
<b>Cash and cash equivalents, end of year</b>	<u>\$ 2,619,663</u>	<u>\$ 6,240,582</u>
<b>Supplemental cash flows information</b>		
Cash paid for interest	<u>\$ 99,177</u>	<u>\$ 223,038</u>

See accompanying notes to consolidated financial statements.

# CENTERSTONE OF TENNESSEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

---

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

Centerstone of Tennessee, Inc. and its consolidated entities (the Center) are private, non-profit corporations that provide multi-funded, locally directed community mental health services for treatment and prevention of emotional, mental and social problems of everyday living. The Center maintains clinics in multiple Tennessee counties, with the main administrative offices located in Nashville, Tennessee. The Center and its consolidated entities share a common management team and Board of Directors. Consolidated entities include Cumberland Holding Corporation and Centerstone Endowment Trust.

#### Principles of Consolidation

The consolidated financial statements include the accounts of Centerstone of Tennessee, Inc., Cumberland Holding Corporation, and Centerstone Endowment Trust. All material intercompany accounts and transactions have been eliminated.

#### Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Significant estimates sensitive to change in the near term include the allowance on accounts receivable, estimated third party settlements and self insurance for employee health claims incurred but not reported. Actual results could differ from those estimates.

#### 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. The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets and to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets.



# CENTERSTONE OF TENNESSEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

---

### Affiliated Entities

Centerstone of America, Inc. is the holding company of the Center.

Advantage Behavioral Health is a not-for-profit organization that provides billing and administrative services and support to behavioral health organizations. Advantage Behavioral Health is a sister corporation of the Center.

Centerstone of Indiana, Inc. is a community mental health center with locations in various counties in Indiana. Centerstone of Indiana, Inc. is a sister corporation of the Center.

Centerstone Housing Resources, Inc. is a not-for-profit agency and is a sister corporation the Center.

### Net Asset Classifications

Net assets are to be classified as unrestricted, temporarily restricted, and permanently restricted.

#### *Unrestricted Net Assets*

The unrestricted net asset class includes general assets and liabilities of the Center. The unrestricted net assets of the Center may be used at the discretion of management to support the Center's purposes and operations.

#### *Temporarily Restricted Net Assets*

The Center's temporarily restricted net assets consist of contributions to the Centerstone of Tennessee where the use of the funds is restricted by the terms of the pledge.

#### *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.

### Cash and Cash Equivalents

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

---

# CENTERSTONE OF TENNESSEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

---

### Restricted Cash

The Center's restricted cash includes debt service withheld by the Tennessee Local Development Authority pooled loan program representing one year of debt service, cash restricted by HUD regulations and a debt service reserve required by an agreement with The Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County.

### Income Taxes

The Center and its consolidated entities are exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code.

### Accounting for Uncertainty in Income Taxes

The Income Tax Topic of the FASB ASC clarifies accounting principles generally accepted in the United States of America for recognition, measurement, presentation and disclosure relating to uncertain tax positions. It applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. As permitted, the Center elected to defer application until issuance of its June 30, 2010 financial statements. For financial statements covering periods prior to fiscal year 2010, the Center evaluates uncertain tax positions in accordance with existing accounting principles generally accepted in the United States of America and makes such accruals and disclosures as might be required there under.

### Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Center that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Center 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.

### Donor Support

The Center reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

---

# CENTERSTONE OF TENNESSEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

---

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 center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service, as instructed by the donor. The Center reclassifies temporarily restricted net assets to unrestricted net assets at that time.

### Investments and Investment Income

Investments in equity securities and debt securities are measured at fair value in the balance sheets. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Investment income (including realized gains and losses on investments, interest, dividends and declines in value determined to be other-than-temporary) from all investments is reported as gains (losses) unless the income is restricted by donor or law. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

The Center holds Level 1 investments, in which fair market values are readily determinable using quoted prices in active markets for identical assets as determined by the FASB ASC.

### Assets Whose Use Limited

The Center has established Centerstone Endowment Trust for the purpose of serving as a permanent charitable endowment fund for the support of the Center. The Center is the sole trustee of the Trust. Currently, the terms of the Trust require annual distributions to the Center of an amount equal to 4.5% of the average of the net fair market values of the Trust assets as determined at the end of the three most recently completed calendar years. The fair value of the Trust assets as of June 30, 2009 and 2008 was \$4,637,522 and \$6,332,480, respectively. The Trust was initially funded by a gift from the Dede Wallace Foundation. The terms of the gift included restrictions on the use of funds distributed by the Trust to the Center. The funds consist of cash and cash equivalents, bonds, and common stocks.

# CENTERSTONE OF TENNESSEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

---

### Performance Indicator and Operating Indicator

The consolidated statements of activities and changes in net assets include a performance indicator, net income (loss) which is equivalent to and entitled change in unrestricted net assets. Changes in unrestricted net assets which would be excluded from net income, include distributions to members, capital contributions from members, gifts of long-lived property and changes in unrealized gains (losses) on other than trading securities. The consolidated statements of activities and changes in net assets also include an operating indicator, operating income (loss). Certain nonoperating items are excluded from the operating indicator including investment income (loss), gains and losses on investments, and gains (losses) on disposal of equipment.

### Advertising Cost

The Center uses advertising to promote its programs and services among the clients it serves. The advertising costs are expensed as incurred. Advertising costs for the Center totaled \$118,161 and \$284,326 for June 30, 2009 and 2008, respectively.

### Property and Equipment and Depreciation

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

	<u>Years</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, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over 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 OF TENNESSEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

---

### Net Client Service Revenue and Accounts Receivable

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges, and per diem payments. Net client service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under agreements with third-party payors for audits. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. No accrual is made for those retroactive adjustments that are not reasonably estimable. The Center estimates an allowance for contractual adjustments and for doubtful accounts based on an evaluation of historical adjustments and losses, current economic conditions and factors unique to their situations. The Center's allowances as of June 30, 2009 and 2008 were \$2,307,172 and \$1,966,832, respectively.

Given the current regulatory and reimbursement environment, there can be no assurances that adequate reimbursement levels will continue to be available for the services provided by the Center. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on the Center's liquidity, financial condition and results of operations.

### Public Support

The Center receives federal and state grants for providing services in specific program areas. Receipt of these funds is subject to the fulfillment of certain obligations by the Center as prescribed by these programs and funds may be subject to repayment upon a determination of noncompliance made by a funding agency.

The Center derives a significant portion of its revenue from third-party payors and federal and state funding programs. The receipt of future revenues by the Center is subject to among other factors, federal and state policies affecting the health care industry, economic conditions that may include an inability to control expenses in periods of inflation, increased competition, market pressures on premium rates and other conditions which are impossible to predict.

# CENTERSTONE OF TENNESSEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

---

### Estimated Third Party Settlements

The Center has estimated third party liabilities for certain programs reflecting the difference between interim reimbursement and reimbursement as determined by contractual agreements and third-party audits. Based upon payments received the Center has estimated third party settlements of \$2,196,750 and \$-0- as of June 30, 2009 and 2008, respectively.

### Charity Care

The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The charity care amounts are not reported as net client service revenue as the Center does not pursue collection.

### Subsequent Events

The Center evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is February 16, 2010.

### Reclassifications

Certain information from 2008 has been reclassified to conform to the 2009 presentation.

## 2. AFFILIATED ENTITY TRANSACTIONS

The Center entered into payroll and working capital transactions with Centerstone of Indiana, Inc., a community mental health center with locations in various counties in Tennessee. The Center has recorded a payable to Centerstone of Indiana, Inc. as of June 30, 2009 in the amount of \$900,588 and a receivable as of June 30, 2008 in the amount of \$41,229.

The Center has entered into payroll transactions involving administrative and management expenses with Centerstone of America, Inc., the holding company of the Center and other affiliates. The Center has a recorded a receivable as of June 30, 2009 in the amount of \$456,829.

# CENTERSTONE OF TENNESSEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

The Center entered into payroll and other transactions with Advantage Behavioral Health, a not-for-profit organization that provides billing and administrative services and support to behavioral health organizations. The Center has recorded a receivable as of June 30, 2009 and 2008 in the amount of \$1,221,442 and \$544,202, respectively. The Center also has a long-term receivable which is included in other assets in the amount of \$1,965,072 related to initial start up expenditures for Advantage.

The Center entered into payroll transactions with Centerstone Housing Resources, Inc., a not-for-profit agency helping place homeless clients receive shelter. The Center has a receivable as of June 30, 2009 in the amount of \$1,013.

### 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fair Value Measurements and Disclosures Topic of the FASB ASC requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by the Center impacted by include the Center's investments which are measured using quoted prices in active markets.

The Center partially adopted the provisions of the Topic for fiscal year 2009, but will delay adoption of non-financial assets and non-financial liabilities. Companies are permitted to partially defer the effective date for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal year 2010.

When fully adopted, the Center will apply the provisions of the Topic to certain non-financial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the changes in net assets and financial position.

Fair values of financial instruments as of June 30, 2009 are as follows:

	Total	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets limited as to use				
Mutual funds and equities	\$ 4,459,598	\$ 4,459,598	\$ -0-	\$ -0-
	4,459,598	4,459,598	-0-	-0-
Cash and cash equivalents	184,551			
Total	\$ 4,644,149			

# CENTERSTONE OF TENNESSEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

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

- Cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses: The carrying amount reported in the consolidated statements of financial position for cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and estimated contractual settlements approximate fair value.
- Long-term debt: Fair value of the Center's revenue bonds is based on current traded value. The fair value of the Center's remaining long-term debt approximates carrying value.

### 4. ASSETS WHOSE USE IS LIMITED

The composition of assets limited as to use at June 30, 2009 and 2008 is set forth in the following table. Investments are stated at fair.

	2009	2008
Cash and cash equivalents	\$ 184,551	\$ 147,556
Corporate bonds	-0-	116,723
Mutual funds and equities	4,459,598	6,077,268
	<u>\$ 4,644,149</u>	<u>\$ 6,341,547</u>

Investment income (loss) consists of the following for 2009 and 2008:

	2009	2008
Interest and dividend income	\$ 188,367	\$ 272,790
Loss on investments	(1,271,713)	(247,785)
	<u>\$ (1,083,346)</u>	<u>\$ 25,005</u>



# CENTERSTONE OF TENNESSEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

### 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	2009	2008
Land	\$ 2,956,557	\$ 2,793,057
Buildings and improvements	25,431,590	25,223,391
Furnishings, equipment and vehicles	17,502,648	13,880,917
Construction in progress	3,109,152	5,050,486
	48,999,947	46,947,851
Accumulated depreciation and amortization	(21,341,368)	(19,003,074)
	<u>\$ 27,658,579</u>	<u>\$ 27,944,777</u>

### 6. PROMISES TO GIVE

Promises to give consist of pledges restricted to the support of the Center. Promises to give 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 uncollectable pledges.

	2009	2008
Promises to give	\$ 3,480,489	\$ 4,483,634
Less allowances for uncollectible pledges and discount	(701,184)	(419,626)
	<u>\$ 2,779,305</u>	<u>\$ 4,064,008</u>
Amounts due in:		
Less than one year	\$ 1,027,363	\$ 1,146,140
One to five years	1,751,942	2,885,673
More than five years	-0-	32,195
	<u>\$ 2,779,305</u>	<u>\$ 4,064,008</u>

# CENTERSTONE OF TENNESSEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

### 7. LONG TERM DEBT

Long term debt consists of the following:

	2009	2008
Variable rate revenue bonds payable, principal payments are deposited into a reserve account monthly at various amounts, beginning with \$30,000 and declining over term to \$8,333 through March 2011, collateralized by land, buildings and improvements and a Bank letter of credit guaranteed by the Foundation	\$ 200,000	\$ 400,000
Note payable, 8.375% interest rate, requiring monthly principal and interest payments of \$1,468 through March, 2031, collateralized by real estate located in Clarksville, TN	178,952	179,540
Note payable, 5.77% variable interest rate, monthly principal and interest payments averaging \$16,739 with a balloon payoff of \$1,636,250 in May 2012, collateralized by building in Shelbyville, TN	1,925,000	2,030,000
Notes payable for financed insurance, 4.99% to 8.67% interest rate. Paid in full during 2009.	-0-	435,802
Note payable, 4.50% variable interest rate. Paid in full during 2009.	-0-	50,000
Note payable, 4.58% interest rate, monthly principal and interest payments of \$20,138 through February 2012, collateralized by equipment located throughout Middle Tennessee	606,903	815,080
Note payable, 8.2% interest rate, requiring monthly principal and interest payments of \$4,430 through December, 2011, collateralized by equipment located throughout Middle Tennessee	132,869	165,747
	3,043,724	4,076,169
Current portion	(469,771)	(1,143,516)
Total long term debt	<u>\$ 2,573,953</u>	<u>\$ 2,932,653</u>

The future maturities of long-term debt are as follows for the years ending June 30:

2010	\$ 469,771
2011	535,603
2012	1,868,378
2013	3,522
2014	3,829
Thereafter	162,621
	<u>\$ 3,043,724</u>

# CENTERSTONE OF TENNESSEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

### 8. NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30, 2009 and 2008:

	2009	2008
Dede Wallace Campus	\$ 2,580,851	\$ 2,806,474
CAFS Programs	1,000	6,000
Unmet Needs	595,935	794,000
SE Middle TN Programs	2,700	4,000
Research	1,606,048	1,017,097
	<u>\$ 4,786,534</u>	<u>\$ 4,627,571</u>

Permanently restricted net assets consist of the following as of June 30, 2009 and 2008:

	2009	2008
Foundation Endowments	<u>\$ 4,315,794</u>	<u>\$ 5,738,942</u>

### 9. ENDOWMENT FUND

The Center'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 Center or provide an acceptable return with lower volatility or credit risk. In order to meet its needs, the investment strategy of the Center 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 Center has a policy of appropriating for distribution an amount of earned income based upon a stipulated formula.

# CENTERSTONE OF TENNESSEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

The endowment net assets by type of fund as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Donor-restricted endowment funds		
Permanently restricted	\$ 4,315,794	\$ 5,738,942
Total endowment funds	<u>\$ 4,315,794</u>	<u>\$ 5,738,942</u>

For 2009 and 2008, the Center had the following endowment-related activities:

	<u>Permanently restricted</u>	
	<u>2009</u>	<u>2008</u>
Endowment net assets, beginning of year	\$ 5,738,942	\$ 6,285,627
Net investment income and other changes	<u>(1,423,148)</u>	<u>(546,685)</u>
Endowment net assets, end of year	<u>\$ 4,315,794</u>	<u>\$ 5,738,942</u>

### 10. FUNCTIONAL EXPENSES

The Center provides behavioral healthcare services to residents within its geographic location. Expenses related to providing these services for 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Behavioral health care services	\$ 62,185,611	\$ 51,822,671
General and administrative	11,844,878	18,207,966
	<u>\$ 74,030,489</u>	<u>\$ 70,030,637</u>

### 11. PENSION PLAN

The Center implemented a 403(b) Retirement Savings Plan for all eligible employees. The plan allows employee contributions limited to the lesser of 20% of compensation or the maximum allowed by law. The plan also allows for employer matching at the discretion of the Center.

# CENTERSTONE OF TENNESSEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

---

During 2009, the Center voted to freeze employer contributions. Pension expense for the years ended June 30, 2009 and 2008 was \$813,599 and \$1,003,723.

### 12. COMMITMENTS AND CONTINGENCIES

#### Operating Leases

The Center has several operating leases, for certain operating facilities and equipment through 2016. Total rent expense was and \$306,898 and \$988,261 for the year ended June 30, 2009 and 2008, respectively.

Future minimum lease payments under non-cancelable operating leases are as follows for the years ending June 30:

2010	\$ 385,608
2011	156,139
2012	36,563
2013	34,406
2014	28,649
Thereafter	49,164
Total minimum lease payments	<u>\$ 690,529</u>

#### Medical Malpractice Claims

The Center purchases professional and general liability insurance to cover medical malpractice claims. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to clients. The Center's policy allows for \$1,000,000 per claim and an aggregate amount of \$3,000,000.

#### Self Insurance

The Center has elected to act as a self-insurer 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, 2009 and 2008 aggregated \$5,075,246 and \$4,385,328 respectively. The Center has purchased insurance, which limits its exposure on a per individual basis and on an aggregate basis.

# CENTERSTONE OF TENNESSEE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

### Compensated Absences

Employees of the Center are entitled to paid time off depending on the length of service. The estimated value of accumulated paid time off as of June 30, 2009 and 2008 was \$3,220,741 and \$3,384,242, respectively.

### Litigation

The Center has pending lawsuits for damages in which it is named as the defendant. The Center, after consultation with counsel, believes that these claims will not materially affect the Center's financial position.

## 13. CONCENTRATIONS OF CREDIT RISK

The Center's main offices are located throughout the State of Tennessee. The Center grants credit without collateral to its clients, most of who are local residents and are insured under third-party payor agreements. Accounts receivable and revenues from clients and third-party payors were as follows:

	Receivables		Revenue	
	2009	2008	2009	2008
Medicare	16%	20%	6%	7%
Medicaid	8%	2%	1%	1%
TennCare	45%	49%	87%	86%
Clients	12%	21%	3%	3%
Other third-party payors	19%	8%	3%	3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

## 14. MANAGEMENT'S PLAN FOR IMPROVED OPERATIONS

The fiscal year ended June 30, 2009 was one of the most financially challenging years in the history of the Center. Challenging events included contract negotiations, TennCare disenrollments and software conversions. The most significant change was a transition to new contracts with TennCare managed care companies which provide significantly less reimbursement for the services provided by the Center to TennCare enrollees. Compounding this problem was a reduction in the number of individuals enrolled in TennCare. Finally, billing software conversion problems delayed claim submissions to all payors and resulted in dramatic reductions in cash reserves and increases in bad debts.

# **CENTERSTONE OF TENNESSEE, INC.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008**

---

In response to these issues, the clinical and administrative operations of the Center were restructured to reduce the number of non-revenue producing staff and reduce or eliminate non-staff expenses where appropriate. Clinical productivity expectations were increased and an incentive program was implemented to motivate increased productivity.

Management believes the staff and other expense reductions along with improvements in billing accuracy and collection efficiency will improve the operating results for the Center from the loss experienced in the year ended June 30, 2009 to a budgeted surplus for the year ended June 30, 2010.

### **15. SUBSEQUENT EVENT**

Centerstone of America, Inc. has obtained additional financing in the approximate amount of \$4,900,000. The financing will assist with additional liquidity and be utilized to pay off certain debt instruments.

SUPPLEMENTARY INFORMATION



# CENTERSTONE OF TENNESSEE, INC.

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION JUNE 30, 2009

ASSETS	Centerstone of Tennessee, Inc.	Centerstone Endowment Trust	Cumberland Holding Co., Inc.	Eliminations	Total
<b>Current assets</b>					
Cash and cash equivalents	\$ 2,535,398	\$ -0-	\$ 44,571	\$ -0-	\$ 2,579,969
Restricted cash	-0-	-0-	39,694	-0-	39,694
Unconditional promises to give, current	1,027,363	-0-	-0-	-0-	1,027,363
Accounts receivable, net	2,703,820	-0-	-0-	-0-	2,703,820
Other receivables	3,536,951	-0-	-0-	-0-	3,536,951
Due from affiliated entities	2,097,797	-0-	-0-	(418,513)	1,679,284
Prepaid expenses and other current assets	277,323	-0-	281	-0-	277,604
<b>Total current assets</b>	<u>12,178,652</u>	<u>-0-</u>	<u>84,546</u>	<u>(418,513)</u>	<u>11,844,685</u>
<b>Property and equipment, net</b>					
Other assets	27,514,801	-0-	143,778	-0-	27,658,579
Unconditional promises to give	2,054,116	-0-	-0-	-0-	2,054,116
Assets whose use is limited	1,751,942	-0-	-0-	-0-	1,751,942
	6,627	4,637,522	-0-	-0-	4,644,149
<b>Total assets</b>	<u>\$ 43,506,138</u>	<u>\$ 4,637,522</u>	<u>\$ 228,324</u>	<u>\$ (418,513)</u>	<u>\$ 47,953,471</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current liabilities</b>					
Current portion of long term debt	\$ 466,972	\$ -0-	\$ 2,799	\$ -0-	\$ 469,771
Accounts payable and accrued expenses	2,086,933	-0-	6,174	-0-	2,093,107
Accrued payroll, benefits and taxes	5,064,800	-0-	-0-	-0-	5,064,800
Estimated third party settlements	2,196,750	-0-	-0-	-0-	2,196,750
Due to affiliated entities	900,588	307,909	110,604	(418,513)	900,588
Other current liabilities	109,944	-0-	-0-	-0-	109,944
<b>Total current liabilities</b>	<u>10,825,987</u>	<u>307,909</u>	<u>119,577</u>	<u>(418,513)</u>	<u>10,834,960</u>
<b>Long term debt, net of current portion</b>					
	2,397,800	-0-	176,153	-0-	2,573,953
<b>Total liabilities</b>	<u>13,223,787</u>	<u>307,909</u>	<u>295,730</u>	<u>(418,513)</u>	<u>13,408,913</u>
<b>Net assets</b>					
Unrestricted	25,498,772	10,864	(67,406)	-0-	25,442,230
Temporarily restricted	4,783,579	2,955	-0-	-0-	4,786,534
Permanently restricted	-0-	4,315,794	-0-	-0-	4,315,794
<b>Total net assets</b>	<u>30,282,351</u>	<u>4,329,613</u>	<u>(67,406)</u>	<u>-0-</u>	<u>34,544,558</u>
<b>Total liabilities and net assets</b>	<u>\$ 43,506,138</u>	<u>\$ 4,637,522</u>	<u>\$ 228,324</u>	<u>\$ (418,513)</u>	<u>\$ 47,953,471</u>

See Report of Independent Auditors on Pages 1 and 2.

# CENTERSTONE OF TENNESSEE, INC.

## CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2009

	Centerstone of Tennessee, Inc.	Centerstone Endowment Trust	Cumberland Holding Corp	Eliminations	Total
<b>Revenue and other support</b>					
Net client service revenue	\$ 43,947,997	\$ -0-	\$ -0-	\$ -0-	\$ 43,947,997
Public support	20,501,669	-0-	-0-	(300,000)	20,201,669
Net assets released from restriction	873,794	-0-	-0-	-0-	873,794
Other	1,028,134	-0-	41,554	-0-	1,069,688
Total revenue and other support	66,351,594	-0-	41,554	(300,000)	66,093,148
<b>Expenses</b>					
Salary and fringe benefits	45,575,313	-0-	85	-0-	45,575,398
Telephone	1,823,031	-0-	2,245	-0-	1,825,276
Travel	1,603,378	-0-	6,545	-0-	1,609,923
Drugs and supplies	3,866,619	-0-	18,177	-0-	3,884,796
Printing and postage	276,925	-0-	87	-0-	277,012
Contracted services	4,468,024	330	-0-	-0-	4,468,354
Purchased services	2,653,736	1,290	1,290	-0-	2,656,316
Affiliated management fees	1,511,956	-0-	-0-	-0-	1,511,956
Rents and leases	302,240	-0-	4,658	-0-	306,898
Utilities	2,969,413	-0-	13,351	-0-	2,982,764
Repairs and Maintenance	528,591	-0-	-0-	-0-	528,591
Depreciation and amortization	2,447,330	-0-	-0-	-0-	2,447,330
Insurance	556,637	-0-	-0-	-0-	556,637
Bad debt	3,605,105	-0-	-0-	-0-	3,605,105
Interest	82,147	-0-	-0-	-0-	99,177
Miscellaneous	1,683,641	8,425	17,030	-0-	1,694,956
Total expenses	73,954,086	10,045	2,890	-0-	74,030,489
Operating loss	\$ (7,602,492)	\$ (10,045)	\$ (24,804)	\$ (300,000)	\$ (7,937,341)

See Report of Independent Auditors on Pages 1 and 2.

# CENTERSTONE OF TENNESSEE, INC.

## CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2009

	Centerstone of Tennessee, Inc.	Centerstone Endowment Trust	Cumberland Holding Corp	Eliminations	Total
<b>Nonoperating revenues (expenses)</b>					
Gain/(loss) on disposal of equipment	\$ (21,713)	\$ -0-	\$ -0-	\$ -0-	\$ (21,713)
Gain/(loss) on investments	(1,856)	-0-	-0-	-0-	(1,856)
Interest and dividend income	41,457	-0-	201	-0-	41,658
Other nonoperating income (expense)	(132,732)	-0-	-0-	-0-	(132,732)
Total nonoperating revenues and expenses	(114,844)	-0-	201	-0-	(114,643)
Change in unrestricted net assets	(7,717,336)	(10,045)	(24,603)	(300,000)	(8,051,984)
<b>Changes in temporarily restricted net assets</b>					
Contributions and pledges, net	729,802	2,955	-0-	-0-	732,757
Transfer from permanently restricted	-0-	300,000	-0-	-0-	300,000
Net assets released from restriction	(873,794)	(300,000)	-0-	300,000	(873,794)
Change in temporarily restricted net assets	(143,992)	2,955	-0-	300,000	158,963
<b>Changes in permanently restricted net assets</b>					
Gain/(loss) on investments	-0-	(1,269,857)	-0-	-0-	(1,269,857)
Transfer to temporarily restricted	-0-	(300,000)	-0-	-0-	(300,000)
Interest and dividend income	-0-	146,709	-0-	-0-	146,709
Change in permanently restricted net assets	-0-	(1,423,148)	-0-	-0-	(1,423,148)
Change in net assets	(7,861,328)	(1,430,238)	(24,603)	-0-	(9,316,169)
<b>Net assets, beginning of year</b>	38,143,679	5,759,851	(42,803)	-0-	43,860,727
<b>Net assets, end of year</b>	<u>\$ 30,282,351</u>	<u>\$ 4,329,613</u>	<u>\$ (67,406)</u>	<u>\$ -0-</u>	<u>\$ 34,544,558</u>

See Report of Independent Auditors on Pages 1 and 2.

# CENTERSTONE OF TENNESSEE, INC.

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION JUNE 30, 2008

ASSETS	Centerstone of Tennessee, Inc.	Centerstone Endowment Trust	Cumberland Holding Co., Inc	Eliminations	Total
<b>Current assets</b>					
Cash and cash equivalents	\$ 6,169,502	\$ -0-	\$ 32,344	\$ -0-	\$ 6,201,846
Restricted cash	-0-	-0-	38,736	-0-	38,736
Unconditional promises to give, current	1,146,140	-0-	-0-	-0-	1,146,140
Accounts receivable, net	4,387,239	-0-	-0-	-0-	4,387,239
Other receivables	4,153,620	-0-	-0-	-0-	4,153,620
Due from affiliated entities	1,232,903	-0-	-0-	(647,472)	585,431
Prepaid expenses and other current assets	755,493	-0-	280	-0-	755,773
Total current assets	17,844,897	-0-	71,360	(647,472)	17,268,785
<b>Property and equipment, net</b>					
Other assets	27,800,999	-0-	143,778	-0-	27,944,777
Unconditional promises to give	2,054,225	-0-	-0-	-0-	2,054,225
Assets whose use is limited	2,917,868	-0-	-0-	-0-	2,917,868
	9,067	6,332,480	-0-	-0-	6,341,547
Total assets	\$ 50,627,056	\$ 6,332,480	\$ 215,138	\$ (647,472)	\$ 56,527,202
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current liabilities</b>					
Current portion of long term debt	\$ 1,140,833	\$ -0-	\$ 2,683	\$ -0-	\$ 1,143,516
Accounts payable and accrued expenses	2,616,352	-0-	3,558	-0-	2,619,910
Accrued payroll, benefits and taxes	5,970,396	-0-	-0-	-0-	5,970,396
Due to affiliated entities	-0-	572,629	74,843	(647,472)	-0-
Total current liabilities	9,727,581	572,629	81,084	(647,472)	9,733,822
<b>Long term debt, net of current portion</b>	2,755,796	-0-	176,857	-0-	2,932,653
Total liabilities	12,483,377	572,629	257,941	(647,472)	12,666,475
<b>Net assets</b>					
Unrestricted	33,516,108	20,909	(42,803)	-0-	33,494,214
Temporarily restricted	4,627,571	-0-	-0-	-0-	4,627,571
Permanently restricted	-0-	5,738,942	-0-	-0-	5,738,942
Total net assets	38,143,679	5,759,851	(42,803)	-0-	43,860,727
Total liabilities and net assets	\$ 50,627,056	\$ 6,332,480	\$ 215,138	\$ (647,472)	\$ 56,527,202

See Report of Independent Auditors on Pages 1 and 2.

# CENTERSTONE OF TENNESSEE, INC.

## CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2008

	Centerstone of Tennessee, Inc.	Centerstone Endowment Trust	Cumberland Holding Corp	Eliminations	Total
<b>Revenue and other support</b>					
Net client service revenue	\$ 50,015,664	\$ -0-	\$ -0-	\$ -0-	\$ 50,015,664
Public support	18,878,739	-0-	-0-	(300,000)	18,578,739
Net assets released from restriction	635,101	-0-	-0-	-0-	635,101
Other	479,488	-0-	33,369	-0-	512,857
Total revenue and other support	70,008,992	-0-	33,369	(300,000)	69,742,361
<b>Expenses</b>					
Salary and fringe benefits	47,306,134	-0-	0	-0-	47,306,134
Telephone	1,534,031	-0-	3,008	-0-	1,537,039
Travel	1,544,030	-0-	9,086	-0-	1,553,116
Drugs and supplies	4,081,463	-0-	29,527	-0-	4,110,990
Printing and postage	320,928	-0-	215	-0-	321,143
Contracted services	3,564,267	-0-	-0-	-0-	3,564,267
Purchased services	2,001,936	-0-	-0-	-0-	2,001,936
Rents and leases	986,636	-0-	-0-	-0-	988,261
Utilities	2,974,632	-0-	1,625	-0-	2,999,800
Repairs and Maintenance	375,518	-0-	25,168	-0-	375,518
Depreciation and amortization	2,234,378	-0-	-0-	-0-	2,239,273
Insurance	654,869	-0-	4,895	-0-	654,869
Bad debt	269,724	-0-	-0-	-0-	269,724
Interest	207,894	-0-	-0-	-0-	223,038
Miscellaneous	1,883,480	-0-	15,144	-0-	1,885,529
Total expenses	69,939,920	-0-	2,049	-0-	70,030,637
Operating loss	\$ 69,072	\$ -0-	\$ (57,348)	\$ (300,000)	\$ (288,276)

See Report of Independent Auditors on Pages 1 and 2.

# CENTERSTONE OF TENNESSEE, INC.

## CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2008

	Centerstone of Tennessee, Inc.	Centerstone Endowment Trust	Cumberland Holding Corp	Eliminations	Total
<b>Nonoperating revenues (expenses)</b>					
Gain/(loss) on disposal of equipment	\$ 300	\$ -0-	\$ -0-	\$ -0-	\$ 300
Gain/(loss) on investments	(1,100)	-0-	-0-	-0-	(1,100)
Interest and dividend income	272,434	-0-	356	-0-	272,790
Other nonoperating income (expenses)	(272,963)	20,909	-0-	-0-	(252,054)
Total nonoperating revenues and expenses	(1,329)	20,909	356	-0-	19,936
Change in unrestricted net assets	67,743	20,909	(56,992)	(300,000)	(268,340)
<b>Changes in temporarily restricted net assets</b>					
Contributions and pledges, net	1,187,218	-0-	-0-	-0-	1,187,218
Transfer from permanently restricted	-0-	300,000	-0-	-0-	300,000
Net assets released from restriction	(635,101)	(300,000)	-0-	300,000	(635,101)
Change in temporarily restricted net assets	552,117	-0-	-0-	300,000	852,117
<b>Changes in permanently restricted net assets</b>					
Gain/(loss) on investments	-0-	(246,685)	-0-	-0-	(246,685)
Transfer to temporarily restricted	-0-	(300,000)	-0-	-0-	(300,000)
Change in permanently restricted net assets	-0-	(546,685)	-0-	-0-	(546,685)
Change in net assets	619,860	(525,776)	(56,992)	-0-	37,092
<b>Net assets, beginning of year</b>	37,523,819	6,285,627	14,189	-0-	43,823,635
<b>Net assets, end of year</b>	<u>\$ 38,143,679</u>	<u>\$ 5,759,851</u>	<u>\$ (42,803)</u>	<u>\$ -0-</u>	<u>\$ 43,860,727</u>

See Report of Independent Auditors on Pages 1 and 2.

# CENTERSTONE OF TENNESSEE, INC.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor Number	June 30, 2008 (Accrued) Deferred	Federal Receipts	Federal Expenditures	June 30, 2009 (Accrued) Deferred
<b>U.S. Dept. of Housing &amp; Urban Development</b>						
Tennessee Department of Human Services						
Emergency Shelter Grant	14.231	Z-08-022619	\$ (210) \$ 210		\$ -0-	\$ -0-
HOME	14.231	ESG-08-16	-0-	14,101	14,101	-0-
	14.239	HM-07-09	-0-	163,500	173,544	(10,044)
Subtotal - U.S. Dept. of Housing and Urban Development			(210)	177,811	187,645	(10,044)
<b>U.S. Dept. Of Justice</b>						
TN Dept of Finance and Administration						
Victims of Crime Assistance	16.575	Z-07-033108	(7,187)	39,657	32,470	-0-
Victims of Crime Assistance	16.575	Z-07-033110	(10,076)	38,397	28,321	-0-
Victims of Crime Assistance	16.575	Z-07-033127	(11,080)	11,080	-0-	-0-
Subtotal - U.S. Dept. of Justice			(28,343)	89,134	60,791	-0-
<b>U.S. Dept. of Education</b>						
Clarksville Montgomery Co. School System						
Fund for the Improvement of Education	84.215		(81,878)	469,992	454,591	(66,477)
<b>U.S. Dept. of Health &amp; Human Services</b>						
SPRANS-Community Based Abstinence Program	93.010	1H1DMC03202	(155,476)	155,476	-0-	-0-
IMPACT-Centerstone's Older Adult Program	93.243	5H79SM56910	(74,222)	369,721	306,551	(11,052)
Methamphetamine Awareness & Prevention	93.243	1H79SP014042	(54,296)	416,172	387,266	(25,390)
Project Self	93.243	1H79T107755	(54,428)	378,355	350,849	(26,922)
Project Self	93.243	1H79T1019313	(78,885)	498,894	451,949	(31,940)
Project Free	93.243	1H79T1020403	-0-	169,441	201,716	(32,275)
Project Real	93.243	1U79SP014998	-0-	164,596	188,816	(24,220)
Co-Occurring Continuum HIV	93.243	1H79T1018870	(60,766)	368,531	337,732	(29,967)
SAMHSA-Clarksville Homeless Adult Program	93.243	6H79T116562	(62,612)	419,450	397,434	(40,596)
National Research Service Awards	93.226	GMO-801101	-0-	121,183	161,020	(39,837)
<b>TN Dept. of Mental Health &amp; Developmental Disabilities</b>						
Building Strong Families	93.087	GR-08-23783	(71,250)	71,250	-0-	-0-
Building Strong Families	93.087	GR-09-25412	-0-	331,265	439,829	(108,564)
Child Mental Health Service Initiative	93.104	GR-06-17719	(195,707)	195,707	-0-	-0-
Muletown Family Network	93.104	GR-09-25601	-0-	540,195	883,704	(343,509)
Mental Health Recovery Services	93.150	GR-08-21576	(13,922)	13,922	-0-	-0-
PATH	93.150	GR-09-25012	-0-	37,723	69,468	(31,745)
CMHS Suicide	93.243	GR-06-17680	(11,484)	43,890	42,164	(9,758)
TLC-Juvenile Prevention	93.243	GR-09-27191	-0-	4,665	39,581	(34,916)
Data Infrastructure Grant	93.243	Z-07-033417	(984)	1,252	10,018	(9,750)

# CENTERSTONE OF TENNESSEE, INC.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor Number	June 30, 2008 (Accrued) Deferred	Federal Receipts	Federal Expenditures	June 30, 2009 (Accrued) Deferred
Substance Abuse Treatment for Older Adults	93.243	GR-05-16746	(6,869)	6,869	-0-	-0-
Substance Abuse Treatment/Meth	93.243	GR-06-17745	-0-	62,787	72,046	(9,259)
Community Mental Health Services	93.958	GR-08-21461	(1,615)	1,615	-0-	-0-
Community Mental Health Services	93.958	GR-08-21571	(15,508)	15,508	-0-	-0-
Community Mental Health Services	93.958	GR-08-21843	(63,953)	63,953	-0-	-0-
BASIC	93.958	GR-09-25470	-0-	185,615	257,300	(71,685)
Early Childhood Network	93.958	GR-09-25703	-0-	46,162	60,483	(14,321)
Peer Support Drop-In Center	93.958	GR-09-24414	-0-	638,699	726,200	(87,501)
Planned Respite Services	93.958	GR-09-25738	-0-	56,405	75,560	(19,155)
Older Adult	93.958	GR-09-24675	-0-	47,486	70,000	(22,514)
Center for Substance Abuse Treatment	93.958	GR-05-17745	(155,825)	155,825	-0-	-0-
Criminal Justice Liason	93.958	GR-08-21764	(4,400)	4,400	-0-	-0-
Criminal Justice Liason	93.958	GR-09-24247	-0-	83,854	105,002	(21,148)
Alcohol & Drug Abuse	93.959	Z-08-423615	(58,560)	58,560	-0-	-0-
Alcohol & Drug Abuse Services for Intensive Focus	93.959	Z-09-216513	-0-	365,350	450,500	(85,150)
TN Dept of Finance & Administration	93.778	GR-07-21536	(441,672)	254,206	-0-	(187,466)
General Continuum Crisis Services	93.959	GR-08-22413	(6,644)	6,644	-0-	-0-
TN Dept. of Health	93.959	GR-09-26083	-0-	15,195	15,195	-0-
Community Prevention Initiative (Strengthening Families)	93.959	GR-09-26585	(31,227)	26,862	50,379	(23,517)
Community Prevention Initiative (Strengthening Families)	93.959	GR-08-23002	-0-	31,227	-0-	-0-
Project Star	93.959	GR-09-26585	-0-	47,442	81,998	(34,556)
Project Star	93.959	GR-09-26219	-0-	25,787	25,787	-0-
TN Dept. of Children Services	93.590	GR-08-21351	-0-	14,089	14,089	-0-
Responsible Parenting			(1,620,305)	6,516,228	6,272,636	(1,376,713)
Subtotal U.S. Dept. of Health & Human Services			\$ (1,730,736)	\$ 7,253,165	\$ 6,975,663	\$ (1,453,234)
Total Federal Awards						

See Report of Independent Auditors on Pages 1 and 2.



# CENTERSTONE OF TENNESSEE, INC.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2009

CFDA #	Total Expenditures
93.243	\$ 2,786,122
93.958	1,294,545
93.104	883,704
93.959	623,859
84.215	454,591
93.087	439,829
14.239	173,544
93.226	161,020
93.150	69,468
16.575	60,791
14.231	14,101
93.590	14,089
	<u>\$ 6,975,663</u>

See Report of Independent Auditors on Pages 1 and 2.

# CENTERSTONE OF TENNESSEE, INC.

## SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 2009

State Grantor/Program Title	Grantor Number	June 30, 2008 (Accrued) Deferred	State Receipts	State Expenditures	June 30, 2009 (Accrued) Deferred
<b>TN Dept. of Mental Health &amp; Developmental Disabilities</b>					
Mental Health Recovery Services					
PATH	GR-08-21461	\$ (186,686)	\$ 186,686	\$ -0-	\$ -0-
PATH	GR-08-21576	(2,705)	2,705	-0-	-0-
Homeless Outreach Program	GR-09-25012	-0-	2,978	3,526	(548)
Regional Housing	GR-09-25012	-0-	3,237	7,000	(3,763)
Regional Housing	GR-08-21842	(122,415)	122,415	-0-	-0-
Regional Intervention Program	GR-09-25128	-0-	61,432	78,050	(16,618)
Regional Intervention Program Expanded	GR-09-21843	(59,673)	59,673	-0-	-0-
Independent Living Assistance	GR-09-25821	-0-	184,575	285,810	(101,235)
Permanent Housing	GR-09-25127	-0-	108,606	109,204	(598)
Targeted Transitional Support	GR-09-25127	-0-	32,450	32,450	-0-
Peer Support Drop-In Center	GR-09-25127	-0-	54,553	61,303	(6,750)
Transportation	GR-09-24414	-0-	28,861	240,260	(211,399)
Peer Power Program	GR-09-24414	-0-	53,132	61,130	(7,998)
School Bases MH Liaison	GR-09-25239	-0-	70,413	95,089	(24,676)
School Based MH Liaison	GR-08-21725	(27,092)	27,092	-0-	-0-
Criminal Justice Liaison	GR-09-25413	-0-	69,954	100,000	(30,046)
Criminal Justice Liaison	GR-08-21764	(35,000)	35,000	-0-	-0-
Alcohol and Drug Abuse Treatment Services	GR-09-24247	-0-	-0-	8,946	(8,946)
for Adolescents					
Crisis Respite Services	Z-09-216541	-0-	88,739	110,015	(21,276)
Enhanced Crisis Respite	GR-07-21722	(436,839)	436,839	-0-	-0-
Safety Net	GR-09-25822	-0-	248,975	248,975	-0-
Suspender Residential	Z-07-033254	(363,747)	363,747	-0-	-0-
All Hazard Training	GR-09-25127	-0-	227,566	342,802	(115,236)
Walk-In Triage	GR-07-18131	-0-	3,256	13,000	(9,744)
Mobile Crisis Intervention	GR-09-25823	-0-	123,689	154,073	(30,384)
Alcohol & Drug Abuse	GR-09-26958	-0-	326,487	616,270	(289,783)
<b>TN Housing Development Agency</b>	Z-08-023615	(16,494)	16,494	-0-	-0-
Trinity House					
<b>TN Dept. of Children's Services</b>	HTF-07-32	-0-	-0-	370	(370)
Level II Continuum					
Level III Continuum	P2C000001	(466,435)	2,835,235	2,576,256	(207,456)
Level I Fosters Care	P3C000001	(150,042)	1,253,767	1,199,800	(96,075)
Responsible Parenting	PFC000001	(26,682)	367,728	365,981	(24,935)
Special Education	GR-08-21351	(8,461)	35,548	33,817	(6,730)
<b>Clarksville Montgomery County Comm. Action Agency</b>	Z-08-212411	-0-	2,000	3,130	(1,130)
Head Start					
Total State Grant Activity	N/A	-0-	6,656	7,068	(412)
		\$ (1,902,271)	\$ 7,440,488	\$ 6,754,325	\$ (1,216,108)

See Report of Independent Auditors on Pages 1 and 2.



Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282  
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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

We have audited the consolidated financial statements of Centerstone of Tennessee, Inc., (the Center), as of and for the year ended June 30, 2009, and have issued our report thereon dated February 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. See findings 09-1 through 09-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 09-1 through 09-2 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Center in a separate letter dated February 16, 2010.

The Center's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Center's response, and accordingly, we express no opinion on it.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Blue & Co., LLC*

February 16, 2010



Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282  
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON THE INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Centerstone of Tennessee, Inc., (the Center), with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Center's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

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

### Internal Control Over Compliance

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

**Blue & Co., LLC**

February 16, 2010

# CENTERSTONE OF TENNESSEE, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2009

### Section I -- Summary of Audit Results:

#### **Financial Statements**

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

☒ yes ☐ no

Significant deficiency(s) identified that are  
not considered to be material weakness(es)?

☐ yes ☒ no

Noncompliance material to financial statements noted?

☐ yes ☒ no

#### **Federal Awards**

Internal controls over major programs:

Material weakness(es) identified?

☐ yes ☒ no

Significant deficiency(s) identified that are  
not considered to be material weakness(es)?

☐ yes ☒ none noted

Type of auditor's report issued on compliance for  
major programs:

Unqualified

Any audit findings disclosed that are required to be  
reported in accordance with section 510(a) of Circular  
A-133?

☐ yes ☒ no

Identification of major program:

CFDA Number

93.243

Name of Federal Program or Cluster

Projects of Regional and National Significance -  
Substance Abuse and Mental Health Services  
(SAMHSA) - Department of Health and Human Service

Dollar threshold used to distinguish between  
type A and B programs:

\$300,000

Auditee qualified as low-risk auditee?

☒ yes ☐ no

# CENTERSTONE OF TENNESSEE, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2009

---

### Section II – Findings related to financial statements reported in accordance with Government Auditing Standards:

#### 09-1 Financial Reporting Process

Condition and Criteria: The Center has experienced a period of significant growth and complexity due to the recent merger, information technology changes, and the related organizational restructuring. Concurrently, unexpected turnover with certain key members of financial management took place.

Cause and Effect: Due to increased size and complexity, the changes in the information technology, and the financial management turnover, the financial reporting process including financial statement preparation and certain related functions such as reconciliation and net asset activity were not completed timely.

Recommendation: We understand that management is aware of this matter and is currently assessing the needs of the newly merged organization with the goal of putting the appropriate financial management in place. We recommend that executive leadership follow through with the assessment of the necessary financial management and that the appropriate actions are taken. We also recommend that management assess the financial reporting process to ensure it yields complete and accurate financial reporting in a timely manner. In addition appropriate documented internal control should be placed into operation including reviews and approvals etc.

Response: Changes have been made in the management structure in order to address issues discovered in the financial reporting process. The financial management professionals are currently assessing the financial reporting process to ensure it yields complete and accurate financial reporting in a timely manner and that it incorporates appropriate documented internal control.

#### 09-2 Patient Accounts Receivable and Revenue Valuation

Condition and Criteria: In addition to the merger and key financial management turnover the Center converted to a new billing system. Significant time and effort was put forth to convert to the system. Management continues to refine the new system and the related accounting for any noted areas of opportunities. Management is still in the process of setting up the reporting that needs to be obtained from the new system. One area of significant opportunity for reporting is related to collection/adjustment experience. This report can be utilized to assist with the valuation of accounts receivable. We noted during the audit of the financial statements that there was not an allowance model in place for accounts receivable.



# CENTERSTONE OF TENNESSEE, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2009

---

Cause and Effect: Due to the conditions noted there was not an adequate allowance methodology in place for accounts receivable.

Recommendation: We recommend management institute the use of an allowance methodology which contemplates both the contractual allowance and the allowance for bad debt by payor. The system reporting will be crucial in the development of the model. The methodology should be applied monthly. The collection/adjustment experience should be updated on a routine basis (i.e. quarterly). In addition, appropriate internal controls should be placed into operation concerning reviews, approvals and data integrity audits.

Response: Management understands the need for a more sophisticated allowance methodology that includes both the contractual allowance and the allowance for bad debt by payor. Management is in the process of developing an allowance methodology which will include appropriate internal control.

### **Section III – Federal Award Findings and Questioned Costs:**

No matters reported.

### **Section IV – Summary Schedule of Prior Audit Findings:**

DEPARTMENT OF JUSTICE - CFDA#16.575

FINDING 08-2 Grant# Z-07-033108, Z-07-033110, Z-07-033127 - Year ended June 30, 2008

*Condition:* VOCA reporting deadlines were not met.

*Criteria:* VOCA grant requires reports to be filed within 30 days following the end of the quarter and or within 30 days of the end of the fiscal year.

*Effect:* Reimbursements could be withheld or future funding denied.

*Recommendation:* Program Coordinators should verify that all reports are timely filed and provide grant staff the resources required to prevent missing filing deadlines.

*Current Status:* Management has incorporated the recommendations for the grant year ending June 30, 2009.