

CENTERSTONE COMMUNITY MENTAL  
HEALTH CENTERS, INC.  
COMBINED FINANCIAL STATEMENTS  
WITH ACCOMPANYING INFORMATION

YEAR ENDED JUNE 30, 2006

and

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
COMBINED FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
Year Ended June 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements:	
Combined Statement of Financial Position	3
Combined Statement of Activities	4
Combined Statement of Functional Expenses	5
Combined Statement of Cash Flows	6
Notes to the Combined Financial Statements	7-11
Accompanying Information:	
Combining Statements of Financial Position	12
Combining Statements of Activities	13
Schedule of Expenditures of Federal Awards	14
Schedule of State Grant Activity	15
Notes to Schedules of Expenditures of Federal Awards and State Grant Activity	16
Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government</i> <i>Auditing Standards</i>	17
Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	18-19
Summary Schedule of Prior Audit Findings	20
Schedule of Findings and Questioned Costs	21



**THURMAN, CAMPBELL & CO.**  
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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Centerstone Community Mental Health Centers, Inc.

We have audited the accompanying combined statement of financial position of Centerstone Community Mental Health Centers, Inc. (a non-profit organization) as of June 30, 2006, and the related combined statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Centerstone Community Mental Health Centers, Inc. as of June 30, 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2006 on our consideration of Centerstone Community Mental Health Centers, Inc.'s internal control over financial reporting and 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 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 read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Centerstone Community Mental Health Centers, Inc. taken as a whole. The combining statements of financial position and the combining statements of activities on pages 12 and 13 are presented for purposes of additional analysis and are not a required part of the basic financial information. The schedules of expenditures of federal awards and state grant activity on pages 14 and 15 are presented for the 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 the State of Tennessee, Department of Audit, *Audit Manual*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Shurman, Campbell & Co.*

October 3, 2006

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
COMBINED STATEMENT OF FINANCIAL POSITION  
June 30, 2006

ASSETS

Current assets:	
Cash	\$ 3,277,130
Investments	969,662
Accounts receivable (less allowance \$1,128,271)	6,635,648
Contributions receivable	9,650
Other receivables	118,563
Inventory	82,041
Prepaid expenses	600,498
Total current assets	<u>11,693,192</u>
Centerstone Trust investments:	
Cash and cash equivalents	529,214
Investments	7,060,729
Total endowment investments	<u>7,589,943</u>
Property, plant and equipment	32,684,540
Less accumulated depreciation	( 15,248,654)
	<u>17,435,886</u>
Other assets:	
Cash limited as to use by Board	9,277,879
Deposits	46,737
Bond issue costs	609
	<u>9,325,225</u>
Restricted cash:	
Debt service	105,774
Cash	32,648
	<u>138,422</u>
TOTAL ASSETS	<u>\$ 46,182,668</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Current maturities of long-term debt	\$ 696,421
Accounts payable	1,495,110
Accrued expenses	5,207,547
Total current liabilities	<u>7,399,078</u>
Long-term debt less current maturities	<u>883,856</u>
TOTAL LIABILITIES	<u>8,282,934</u>
<u>NET ASSETS</u>	
Unrestricted	32,164,771
Temporarily restricted	5,734,963
TOTAL NET ASSETS	<u>37,899,734</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 46,182,668</u>

The accompanying notes are an integral part of these financial statements.

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
COMBINED STATEMENT OF ACTIVITIES  
Year ended June 30, 2006

CHANGES IN UNRESTRICTED NET ASSETS

Public Support:	
Contributions	\$ 896,912
Revenue:	
Government contracts	1,360,873
Program service fees	43,944,725
Investment return	496,868
Other	<u>470,096</u>
 TOTAL UNRESTRICTED SUPPORT AND REVENUE	 47,169,474
Net assets released from restrictions	
Restrictions satisfied by contract\grant compliance	<u>11,662,510</u>
 TOTAL UNRESTRICTED SUPPORT, REVENUE AND RECLASSIFICATIONS	 <u>58,831,984</u>
 Expenses and Losses:	
Program services	47,284,416
Supporting services	11,199,401
Development	<u>535,147</u>
 TOTAL EXPENSES	 <u>59,018,964</u>
 DECREASE IN UNRESTRICTED NET ASSETS	 <u>( 186,980)</u>
 CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Government contracts\grants	11,662,510
Net Investment return	399,478
Net assets released from restrictions	
Restrictions satisfied by contract\grant compliance	<u>( 11,662,510)</u>
 INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	 <u>399,478</u>
 INCREASE IN NET ASSETS	 212,498
NET ASSETS BEGINNING OF YEAR	<u>37,687,236</u>
 NET ASSETS END OF YEAR	 <u>\$ 37,899,734</u>

The accompanying notes are an integral part of these financial statements.

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
COMBINED STATEMENT OF FUNCTIONAL EXPENSES  
Year ended June 30, 2006

	Core Services	Adult Services	Children & Youth Services	Total Program Services	Management & General	Development	Total Functional Expenses
Salaries and benefits	\$ 11,050,855	\$ 9,401,094	\$ 8,807,523	\$ 29,259,472	\$ 10,089,505	\$ 216,885	\$ 39,565,862
Facilities	546,520	697,037	461,549	1,705,106	648,485	4,899	2,358,490
Interest		17,354	1,850	19,204	57,046		76,250
Communications	347,388	343,261	264,699	955,348	285,990	4,528	1,245,866
Travel & transportation	75,857	627,775	464,445	1,168,077	138,211	1,524	1,307,812
Supplies	215,558	219,989	520,894	956,441	288,576	21,290	1,266,307
Client assistance	2,802,731	381,349	1,323	3,185,403			3,185,403
Subcontracted services	475,804	1,270,591	2,561,963	4,308,358	1,241,453	72,488	5,622,299
Professional fees	2,627	923	59,682	63,232	366,105		429,337
Computer	9,553	3,759	8,610	21,922	121,453	4,448	147,823
Insurance	318,078	181,984	116,102	616,164	22,815	410	639,389
Depreciation	336,628	220,350	252,831	809,809	691,636	3,997	1,505,442
Advertising & promotion	24,325	31,268	21,929	77,522	99,467	268	177,257
Postage	26,319	13,557	13,629	53,505	71,284	6,217	131,006
Professional growth	46,388	95,359	123,348	265,095	102,606	1,202	368,903
Bad debt					428,829		428,829
Other	65,133	86,980	225,435	377,548	181,575	3,566	562,689
Support staff allocation	2,006,779	820,975	614,456	3,442,210	(3,635,635)	193,425	-
Total Expenses	\$ 18,350,543	\$ 14,413,605	\$ 14,520,268	\$ 47,284,416	\$ 11,199,401	\$ 535,147	\$ 59,018,964

The accompanying notes are an integral part of these financial statements.

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
COMBINED STATEMENT OF CASH FLOWS  
Year ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in Net Assets	\$ 212,498
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	1,505,442
Unrealized loss on investments	69,770
(Increase) Decrease in:	
Receivables	( 1,009,796)
Prepaid expenses	111,563
Other assets	80,308
Increase (Decrease) in:	
Accounts payable	614,444
Accrued liabilities	<u>490,899</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,075,128</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of property & equipment	( 2,776,807)
Purchase of investments	<u>( 520,137)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>( 3,296,944)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on long-term debt	<u>( 377,050)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>( 377,050)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	( 1,598,866)
BEGINNING CASH AND CASH EQUIVALENTS	<u>14,153,875</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 12,555,009</u>

Supplemental Disclosure of Cash Flow Information  
Cash Paid During the Year for:

Interest	<u>\$ 74,843</u>
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The accompanying notes are an integral part of these financial statements.



CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
NOTES TO THE COMBINED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** - Centerstone Community Mental Health Centers, Inc. and its affiliates (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 affiliates share a common management team and Board of Directors.

**Basis of Presentation** - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations and Statement of Financial Accounting Standards (SFAS) No. 116, Accounting for Contributions Received and Contributions Made. Under SFAS No. 117, the Organization 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. SFAS No. 116 requires the Organization to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets.

**Principles of Combination** - The combined financial statements include the accounts of Centerstone Community Mental Health Centers, Inc., Cumberland Holding Corporation, Advantage Behavioral Health and Centerstone Foundation. All material intercompany accounts and transactions have been eliminated.

**Revenue Recognition** - Support received is recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restriction.

**Donated Services** - The Organization receives donated services from a variety of unpaid volunteers. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer effort under SFAS No. 116 have not been satisfied.

**Investments** - The organization has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. 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.

**Cash and cash equivalents** - For purposes of the statement of cash flows, the Center considers all highly liquid instruments with maturities of three months or less to be cash equivalents.

**Income taxes** - The organizations combined herein are exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code.

**Property, plant, and equipment** - The organization capitalizes all expenditures for property and equipment in excess of \$5,000. Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

**Retirement** - The Center maintains a 403(b) Retirement Savings Plan for all eligible employees (See Note 6).

**Advertising** - Advertising costs are expensed as incurred and are included in advertising and promotion expense.

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
(Continued)

**Temporarily Restricted Net Assets** – The Center's temporarily restricted net assets consist of a gift to The Centerstone Foundation where the use of the funds is restricted by the terms of the gift (See Note 13).

**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 agreement with The Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County.

**Bond Issue Costs** - Bond issue costs related to the issue of Tennessee Local Development Authority's pooled loan program and The Health & Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee, Revenue Bonds are being amortized over the life of the bonds using the straight-line method.

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

## 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following (includes cash limited as to use by board):

Cash on hand	\$ 14,010
Cash in checking accounts	2,840,337
Money market accounts	9,700,662
	<u>\$ 12,555,009</u>

## 3 INVESTMENTS

The Center carries its investments at fair market value. Investments at June 30, 2006 consist of the following:

	Cost	Fair Value
Money Markets	\$ 661,907	\$ 661,907
Common stocks	5,399,928	6,400,264
Bonds	1,449,320	1,497,434
	<u>\$ 7,567,155</u>	<u>\$ 8,559,605</u>

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
(Continued)

4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	Cost	Accumulated Depreciation	Estimated Useful Lives
Land	\$ 2,531,514	\$ 0	
Buildings and improvements	20,159,349	7,843,737	10-40 years
Equipment and vehicles	9,993,677	7,404,917	5-20 years
	<u>\$ 32,684,540</u>	<u>\$ 15,248,654</u>	

Total depreciation expense for 2006 was \$1,505,442.

5 NOTES PAYABLE

5.99 % financed insurance	\$ 394,100
Variable rate bonds payable	1,000,000
8.375% note payable	186,177
	<u>1,580,277</u>
Less current maturities	696,421
	<u>\$ 883,856</u>

The 5.99 percent note in the amount of \$394,100 is unsecured. The note requires monthly principal and interest payments of \$56,956 through February 2007.

Per an agreement dated March 1, 1996, The Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee, (the "Metropolitan Board") issued Revenue Bonds in the principle amount of \$4,000,000. The Metropolitan Board agreed to lend to Dede Wallace Center, from the sale proceeds, \$4,000,000 to pay the costs of renovating and equipping certain facilities. Under the terms of the promissory note, principal payments are deposited into a reserve account monthly at various amounts, beginning with \$30,000 and declining over the term to \$8,333 through March 2011. Interest on the outstanding balance is due monthly at variable rates. Principal is paid from the reserve annually. The promissory note is secured by a negative pledge on certain land, buildings, and improvements of the organization and a \$3,761,667 bank letter of credit guaranteed by the Centerstone Community Mental Health Centers Endowment Trust. The agreements related to the bonds contain various requirements and financial covenants. Management is of the opinion that the Organization is in compliance with all requirements and covenants. The balance was \$1,000,000 at June 30, 2006.

The 8.375 percent note in the amount of \$186,177 is secured by real estate located in Clarksville, Tennessee. The note requires monthly principal and interest payments of \$1,468 through March 2031.

Maturities of long-term debt in each of the next five years are as follows:

2007	\$ 696,421
2008	302,523
2009	302,753
2010	102,981
2011	3,241

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
(Continued)

6 RETIREMENT PLAN

On May 1, 1998 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. Retirement expense for the year ended June 30, 2006 was \$821,175.

7 CONTRACTS

The Center enters into program administrative contracts and grants with the local, state and federal government agencies. These contracts are for the purpose of providing mental health and drug and alcohol services in accordance with applicable federal and state laws, regulations, program guidelines, service definitions and stated goals. Total revenue under these grants and contracts for 2006 was \$11,662,510.

8 LEASES

The Center leases property in several Tennessee counties. Total lease expense was \$661,627 for the year ended June 30, 2006.

Present values of future minimum lease payments are as follows:

2007	\$	622,119
2008		442,705
2009		371,276
2010		308,871
2011		175,426

9 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 was \$2,600,651 as of June 30, 2006.

10 CONTINGENCIES

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.

Funding for the majority of the Center's programs is provided by federal, state, and local government agencies. These funds are to be used for designated purposes only. If, based on the grantor's/contractor's review, the funds are considered not to have been used for the intended purpose or the terms of the grant/contract, the grantor/contractor may request a refund of monies advanced or refuse to reimburse the Center for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Center's programs is predicated upon the compliance of the Center with the grant/contract terms and the grantor's/contractor's intent to continue their programs.

The Center reimburses its health insurance trustee under its group health insurance plan on a claims made basis. The estimated liability for unpaid claims was \$448,988 as of June 30, 2006.

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
(Continued)

11 FINANCIAL INSTRUMENTS

The Center maintains cash balances at various local financial institutions. Balances, at times, may be uninsured or may exceed federally insured limits. The Center has not experienced any losses in such accounts. Management believes it is not exposed to any significant concentration risk on cash.

12 CONCENTRATION OF CREDIT RISK

The organization serves mental health clients that reside in middle Tennessee. Charges for services not covered by insurance or other third party agreements are billed and credit is granted according to the individual client's ability to pay.

13 CENTERSTONE FOUNDATION

On October 28, 2000 Centerstone Community Mental Health Centers, Inc. established Centerstone Foundation for the purpose of serving as a permanent charitable endowment fund for the support of Centerstone. Centerstone Community Mental Health Centers, Inc. is the sole trustee of the Foundation. Currently, the terms of the Foundation require annual distributions to Centerstone of an amount equal to 4.5% of the average of the net fair market values of the Foundation assets as determined at the end of the three most recently completed calendar years. The fair value of the Foundation assets as of June 30, 2006 was \$7,589,943.

The Foundation 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 Foundation to Centerstone.

14 SUBSEQUENT EVENTS

On July 21, 2006 the Center executed contracts with BellSouth for, communication systems equipment and installation (\$999,346), 36-month maintenance agreement (\$115,774) and a monthly services agreement (\$42,309 monthly for 36 months).

## ACCOMPANYING INFORMATION

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
COMBINING STATEMENTS OF FINANCIAL POSITION  
June 30, 2006

<u>ASSETS</u>						
	Centerstone	Cumberland Holding Corp.	Advantage Behavioral Health	The Centerstone Foundation	Sub-total	Eliminations
Current assets:						
Cash	\$ 3,229,316	\$ 47,814	\$ -	\$ -	\$ 3,277,130	\$ -
Investments	969,662				969,662	
Accounts receivable	6,635,648				6,635,648	
Contributions receivable	1,864,630				1,864,630	(1,854,980)
Other receivables	996,104				996,104	(877,541)
Inventory	82,041				82,041	
Prepaid expenses	600,498				600,498	
Total current assets	14,377,899	47,814	-	-	14,425,713	(2,732,521)
Foundation investments:						
Cash and cash equivalents				529,214	529,214	
Investments				7,060,729	7,060,729	
Total foundation investments	-	-	-	7,589,943	7,589,943	-
Property, plant and equipment	32,481,490	203,050			32,684,540	
Less accumulated depreciation	(15,170,901)	(77,753)			(15,248,654)	
	17,310,589	125,297			17,435,886	
Other assets:						
Cash limited as to use by Board	9,277,879				9,277,879	
Deposits	46,737				46,737	
Bond issue costs	609				609	
	9,325,225				9,325,225	
Restricted cash:						
Debt Service	105,774				105,774	
Other		32,648			32,648	
	105,774	32,648			138,422	
	\$ 41,119,487	\$ 205,759	\$ -	\$ 7,589,943	\$ 48,915,189	\$ (2,732,521)
<b>TOTAL ASSETS</b>						<b>\$ 46,182,668</b>
<u>LIABILITIES</u>						
Current liabilities:						
Current maturities of long-term debt	\$ 694,100	\$ 2,321	\$ -	\$ -	\$ 696,421	\$ -
Accounts payable	1,491,434	49,564	831,653	1,854,980	4,227,631	(2,732,521)
Accrued expenses	5,203,796	3,751			5,207,547	
Total current liabilities	7,389,330	55,636	831,653	1,854,980	10,131,599	(2,732,521)
Long-term debt less current liabilities	700,000	183,856			883,856	
<b>TOTAL LIABILITIES</b>	8,089,330	239,492	831,653	1,854,980	11,015,455	(2,732,521)
<b>NET ASSETS</b>						
Unrestricted	33,030,157	(33,733)	(831,653)		32,164,771	
Temporarily restricted				5,734,963	5,734,963	
<b>TOTAL NET ASSETS</b>	33,030,157	(33,733)	(831,653)	5,734,963	37,899,734	-
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 41,119,487	\$ 205,759	\$ -	\$ 7,589,943	\$ 48,915,189	\$ (2,732,521)
						<b>\$ 46,182,668</b>

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
COMBINING STATEMENTS OF ACTIVITIES  
Year ended June 30, 2006

CHANGES IN UNRESTRICTED NET ASSETS							
Public Support:	Centerstone	Corp.	Health	Foundation	Sub-total	Eliminations	Total
Contributions	\$ 1,176,415	\$ -	\$ -	\$ -	\$ 1,176,415	\$ (279,503)	\$ 896,912
Revenue:							
Government contracts	1,360,873				1,360,873		1,360,873
Program service fees	43,944,725				43,944,725		43,944,725
Investment return	492,595	4,273			496,868		496,868
Other	442,286	27,810			470,096		470,096
TOTAL UNRESTRICTED SUPPORT & REVENUE	47,416,894	32,083	-	-	47,448,977	(279,503)	47,169,474
Net assets released from restrictions:							
Restrictions satisfied by grant compliance	11,662,510				11,662,510		11,662,510
TOTAL UNRESTRICTED SUPPORT, REVENUE AND RECLASSIFICATIONS	59,079,404	32,083	-	-	59,111,487	(279,503)	58,831,984
Expenses:							
Program services	47,204,411	80,005			47,284,416		47,284,416
Supporting services	10,871,582		327,819		11,199,401		11,199,401
Development	535,147				535,147		535,147
TOTAL EXPENSES	58,611,140	80,005	327,819	-	59,018,964	-	59,018,964
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	468,264	(47,922)	(327,819)	-	92,523	(279,503)	(186,980)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS							
Government contracts/grants	11,662,510				11,662,510		11,662,510
Investment return				428,311	428,311		428,311
Investment/professional fees				(28,833)	(28,833)		(28,833)
Contributions made				(279,503)	(279,503)	279,503	-
Net assets released from restrictions	(11,662,510)				(11,662,510)		(11,662,510)
Restrictions satisfied by grant compliance							
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-	119,975	119,975	279,503	399,478
INCREASE (DECREASE) IN NET ASSETS	468,264	(47,922)	(327,819)	119,975	212,498		212,498
NET ASSETS BEGINNING OF YEAR	32,561,893	14,189	(503,834)	5,614,988	37,687,236		37,687,236
NET ASSETS END OF YEAR	\$ 33,030,157	\$ (33,733)	\$ (831,653)	\$ 5,734,963	\$ 37,899,734	\$ -	\$ 37,899,734



CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	June 30, 2005 (Accrued)	Federal Receipts	Federal Expenditures	June 30, 2006 (Accrued)
<b>U.S. Dept. of Agriculture</b>						
TN Department of Education	10.553/10.555	DA0602287	\$ -	\$ 15,889	\$ (19,303)	\$ (3,414)
School Breakfast/Lunch Program	10.553/10.555	DP0502082	(9,362)	9,362	-	-
TN Department of Human Services	10.553/10.555	DA0600110	-	7,634	(8,601)	(967)
School Breakfast/Lunch Program	10.553/10.555	DA0500086	(865)	3,122	(2,257)	-
School Breakfast/Lunch Program	10.553/10.555		(10,227)	36,007	(30,161)	(4,381)
Subtotal-U.S. Dept. of Agriculture						
<b>U.S. Dept. of Housing &amp; Urban Development</b>						
Tennessee Department of Human Services	14.231	Z06026076	-	13,861	(14,285)	(424)
Emergency Shelter Grant	14.239	HM0314	(321,112)	490,880	(169,768)	-
Tennessee Housing Development Agency			(321,112)	504,741	(184,053)	(424)
Community Development Block Grant-HOME						
Subtotal-U.S. Dept. of Housing & Urban Development						
<b>U.S. Dept. of Justice</b>						
TN Dept. of Finance and Administration	16.575	Z00099323	(5,820)	44,390	(41,193)	(2,623)
Victims of Crime Assistance	16.575	Z00099350	(3,833)	37,847	(38,870)	(4,856)
Victims of Crime Assistance	16.575	Z00004850	(3,613)	52,033	(51,697)	(3,277)
TN Department of Mental Health and Developmental Disabilities						
Peer Power	16.679	GR0617072	-	48,603	(66,969)	(18,366)
Peer Power	16.679	GR0516392	(23,953)	23,953	-	-
Subtotal-U.S. Dept. of Justice			(37,219)	206,826	(198,729)	(29,122)
<b>U.S. Dept. of Health &amp; Human Services</b>						
Bilingual/Bicultural Service Demonstration Program	93.105	MOA	(9,682)	31,452	(24,565)	(2,795)
SPRANS-Community Based Abstinence Program	93.110	1 H1DMC03202	(128,010)	512,668	(657,585)	(272,927)
SAMHSA-Clarksville Homeless Adult Program	92.243	5H79T16562	(76,837)	311,549	(323,624)	(88,912)
IMPACT-Centerstone's Older Adult Program	92.243	1H79SM56910	-	21,978	(106,043)	(84,065)
TN Dept. of Mental Health & Developmental Disabilities						
Mule Town	93.104	GR0617719	-	58,214	(268,018)	(209,804)
CMHS Suicide	93.243	GR0617680	-	5,909	(23,743)	(17,834)
Community Mental Health Services	93.958	GR0617066	-	435,769	(574,983)	(139,214)
Community Mental Health Services	93.958	GR0617186	-	767,869	(1,045,966)	(278,097)
Community Mental Health Services	93.958	GR0516314	(220,193)	220,193	-	-
Center for Substance Abuse Treatment	93.958	GR0617745	-	16,296	(284,019)	(267,723)
Nashville Connection	93.958	GR0617169	-	3,163	(3,163)	-
Nashville Connection	93.104	GR0516303	(13,011)	13,011	-	-
Project for Assistance in Transition from Homeless	93.150	GR0516187	(6,084)	6,084	-	-
Substance Abuse Treatment for Older Adults	93.230	GR0516746	(141,205)	489,353	(496,388)	(148,240)
National Service Americorps	94.006	GR0516273	(18,548)	18,548	-	-
TN Dept. of Health						
Alcohol & Drug Abuse	93.959	Z06027897	-	403,139	(467,535)	(64,396)
Alcohol & Drug Abuse	93.959	GR0516555	(65,791)	65,791	-	-
Community Prevention Initiative (Strengthening Families)	93.959	Z05020811	(38,032)	69,212	(31,180)	-
Community Prevention Initiative (Strengthening Families)	93.959	GR0617677	-	28,103	(64,356)	(36,253)
Community Prevention Initiative (Strengthening Families)	93.959	GR0617809	-	9,161	(28,641)	(19,480)
Project Star	93.959	GR0617685	-	37,099	(90,370)	(53,271)
Metro Davidson Co. Board Of Health						
Community Prevention Initiative (Peer Power)	93.959	N/A	(3,285)	18,199	(18,199)	(3,285)
Subtotal U.S. Dept. of Health & Human Services			(720,678)	3,542,760	(4,508,378)	(1,686,296)
<b>Total Federal Awards</b>			\$ (1,089,236)	\$ 4,290,334	\$ (4,921,321)	\$ (1,720,223)

See accompanying notes to schedules.

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
SCHEDULE OF STATE GRANT ACTIVITY  
Year ended June 30, 2006

State Grantor/ Program Title	State Grantor Number	June 30, 2005 (Accrued)	State Receipts	State Expenditures	June 30, 2006 (Accrued)
<b>TN Dept. of Mental Health &amp; Developmental Disabilities</b>					
Community Mental Health Services	GR0617066	\$ -	\$ 201,687	\$ (301,496)	\$ (99,809)
Community Mental Health Services	GR0516314	(307,460)	307,460	-	-
Peer Power	GR0617072	-	16,201	(22,322)	(6,121)
Peer Power	GR0516392	(7,984)	7,984	-	-
Targeted Transitional Support	GR0617186	-	159,799	(190,501)	(30,702)
Targeted Transitional Support	GR0516249	(13,833)	13,833	-	-
Project for Assistance in Transition from Homeless	GR0516187	(11,235)	11,235	-	-
Regional Housing	GR0617087	-	85,357	(105,285)	(19,928)
Regional Housing	GR0516313	(74,712)	74,712	-	-
Nashville Connection	GR0617169	-	6,423	(6,423)	-
Nashville Connection	GR0617606	-	34,817	(69,898)	(35,081)
Nashville Connection	GR0516303	(18,723)	18,723	-	-
Forensic Services	GR0616965	-	35,325	(66,500)	(31,175)
Forensic Services	GR0516184	(17,500)	17,500	-	-
National Service Americorps	GR0617183	-	43,844	(43,844)	-
National Service Americorps	GR0516273	(8,514)	8,514	-	-
Safety Net	Z06028769	-	874,003	(1,144,170)	(270,167)
All Hazard Training	GR0617097	-	9,832	(12,261)	(2,429)
<b>TN Dept. of Health</b>					
Alcohol & Drug Abuse	Z06027897	-	101,164	(117,323)	(16,159)
Alcohol & Drug Abuse	GR0516555	(21,231)	21,231	-	-
<b>TN Dept. of Corrections</b>					
Alcohol & Drug Counseling	GR0516568	(1,335)	1,335	-	-
<b>TN Dept. of Children's Services</b>					
Child Abuse Prevention	GR0617210	-	12,315	(12,315)	-
Child Abuse Prevention	GR0516816	(3,419)	3,419	-	-
Level II Continuum	H2C000004	(309,652)	309,652	-	-
Level II Special Population	H2C000028	-	2,119,956	(2,531,620)	(411,664)
Level II Special Population	H2P000012	(33,259)	33,259	-	-
Level III Continuum	H2P000034	-	34,682	(41,293)	(6,611)
Level III Continuum	H3C000005	(109,443)	109,443	-	-
Level I Foster Care	H3C000024	-	952,912	(1,098,775)	(145,863)
Level I Foster Care	HFC000009	(10,032)	10,032	-	-
Primary Treatment Center	HPT000002	(72,687)	148,243	(187,787)	(39,544)
Primary Treatment Center	HPT000011	-	72,687	-	-
Responsible Parenting	GR0617773	-	671,853	(732,092)	(60,239)
Strengthening Families	GR0617766	-	21,342	(28,254)	(6,912)
		-	14,745	(29,030)	(14,285)
<b>Total State Grant Activity</b>		\$ (1,021,019)	\$ 6,565,519	\$ (6,741,189)	\$ (1,196,689)

See accompanying notes to schedules.

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE GRANT ACTIVITY

NOTE A BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state grant activity includes the federal and state grant activity of Centerstone Community Mental Health Centers, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB-Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Tennessee, Department of Audit, Audit Manual. Therefore, some amounts presented in this schedule may differ from amounts presented in, or uses in the preparation of, the basic financial statements.



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REPORT 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*

F. English Lacy  
Robert E. Yates, II  
Christopher C. Johns  
Paul S. Ellis  
Sandra K. Boyd  
Rick L. Davis

Kendra S. Bucciarelli  
Lawrence F. Campbell  
Stacy Boone

To the Board of Directors  
Centerstone Community Mental Health Centers, Inc.

We have audited the financial statements of Centerstone Community Mental Health Centers, Inc. (Centerstone) as of and for the year ended June 30, 2006, and issued our report thereon dated October 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Centerstone's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *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 Centerstone's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 06-01. We consider item 06-01 to be a material weakness.

This report is intended solely for the information of the finance committee, 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.

*Thurman, Campbell & Co.*  
October 3, 2006