

CENTERSTONE OF TENNESSEE, INC.
COMBINED FINANCIAL STATEMENTS
WITH ACCOMPANYING INFORMATION

YEAR ENDED JUNE 30, 2008

and

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

CENTERSTONE OF TENNESSEE, INC.
COMBINED FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
Year Ended June 30, 2008

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THURMAN, CAMPBELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL SERVICE CORPORATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Centerstone of Tennessee, Inc.

We have audited the accompanying combined statement of financial position of Centerstone of Tennessee, Inc. (a non-profit organization) as of June 30, 2008, 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 of Tennessee, Inc. as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2008 on our consideration of Centerstone of Tennessee, 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 of Tennessee, Inc. taken as a whole. The combining statements of financial position and the combining statements of activities on pages 13 and 14 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 15 and 16 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. CPAs

November 17, 2008

CENTERSTONE OF TENNESSEE, INC.
COMBINED STATEMENT OF FINANCIAL POSITION
June 30, 2008

ASSETS

Current assets:

Cash	\$ 1,566,181
Cash limited as to use by Board	4,619,540
Investments	588,525
Accounts receivable, (net allowance of \$1,966,916)	8,570,823
Unconditional promises to give	
Restricted to funding for next fiscal year	1,146,140
Other receivables	66,149
Inventory	30,977
Prepaid expenses	706,287
Total current assets	<u>17,294,622</u>

Centerstone Endowment Trust investments:

Cash and cash equivalents	138,490
Investments	6,193,991
Less current portion	<u>(572,629)</u>
	<u>5,759,852</u>

Long-term unconditional promises to give

Restricted to funding for fiscal years 2009 to 2014	<u>2,917,868</u>
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Property, plant and equipment

Less accumulated depreciation	46,947,950
	<u>(19,003,074)</u>
	<u>27,944,876</u>

Other assets:

Deposits	<u>89,153</u>
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Restricted cash:

Debt service	102,259
Cash	38,736
	<u>140,995</u>

TOTAL ASSETS \$ 54,147,366

LIABILITIES AND NET ASSETS

Current liabilities:

Current maturities of long-term debt	\$ 1,143,516
Accounts payable	2,260,723
Accrued expenses	6,481,128
Total current liabilities	<u>9,885,367</u>

Long-term debt less current maturities

2,932,653

TOTAL LIABILITIES 12,818,020

NET ASSETS

Unrestricted	31,011,806
Temporarily restricted	<u>10,317,540</u>

TOTAL NET ASSETS 41,329,346

TOTAL LIABILITIES AND NET ASSETS \$ 54,147,366

CENTERSTONE OF TENNESSEE, INC.
COMBINED STATEMENT OF ACTIVITIES
Year ended June 30, 2008

CHANGES IN UNRESTRICTED NET ASSETS

Public Support:	
Contributions	\$ 428,106
Revenue:	
Government contracts	2,190,209
Program service fees	50,275,397
Investment return	271,692
Other	<u>526,388</u>
 TOTAL UNRESTRICTED SUPPORT AND REVENUE	 53,691,792
Net assets released from restrictions	
Restrictions satisfied by contract\grant compliance	<u>16,766,156</u>
 TOTAL UNRESTRICTED SUPPORT, REVENUE AND RECLASSIFICATIONS	 <u>70,457,948</u>
 Expenses and Losses:	
Program services	64,433,018
Supporting services	5,574,422
Development	<u>886,417</u>
 TOTAL EXPENSES	 <u>70,893,857</u>
 DECREASE IN UNRESTRICTED NET ASSETS	 <u>(435,909)</u>
 CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Government contracts\grants	14,579,058
Contributions	2,477,651
Net Investment return	(246,684)
Net assets released from restrictions:	
Restrictions satisfied by contract\grant compliance	<u>(16,766,156)</u>
 INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	 <u>43,869</u>
 DECREASE IN NET ASSETS	 (392,040)
NET ASSETS BEGINNING OF YEAR	<u>41,721,386</u>
 NET ASSETS END OF YEAR	 <u><u>\$ 41,329,346</u></u>

CENTERSTONE OF TENNESSEE, INC.
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2008

	Core Services	Adult Services	Children & Youth Services	Total Program Services	Management & General	Development	Total Functional Expenses
Salaries and benefits	\$ 13,251,587	\$ 10,450,493	\$ 11,462,702	\$ 35,164,782	\$ 13,227,873	\$ 328,731	\$ 48,721,386
Facilities	645,861	968,241	571,211	2,185,313	791,729	23,086	3,000,128
Interest	-	15,144	-	15,144	207,894	-	223,038
Communications	334,037	389,085	375,939	1,099,061	438,583	10,568	1,548,212
Travel & transportation	120,289	698,230	553,193	1,371,712	188,376	2,632	1,562,720
Supplies	393,889	531,994	511,554	1,437,437	668,277	36,910	2,142,624
Drugs and medicines	2,933,151	1,739	431	2,935,321	211	-	2,935,532
Client assistance	34,347	237,627	72,752	344,726	(6,648)	-	338,078
Subcontracted services	568,906	1,997,493	1,707,819	4,274,218	1,785,964	55,548	6,115,730
Professional fees	32,745	7,916	47,698	88,359	649,023	473	737,855
Computer	34,788	12,414	38,435	85,637	261,058	9,976	356,671
Insurance	330,613	180,934	123,976	635,523	27,050	923	663,496
Depreciation	437,184	319,853	312,228	1,069,265	1,155,184	14,825	2,239,274
Advertising & promotion	51,704	51,684	189,803	293,191	134,334	2,450	429,975
Postage	36,366	11,476	13,909	61,751	79,886	10,706	152,343
Professional growth	67,070	107,786	189,712	364,568	257,599	10,174	632,341
Bad debt	60,453	22,071	7,075	89,599	180,124	-	269,723
Other	91,318	64,380	109,532	265,230	(1,819,914)	379,415	(1,175,269)
Support staff allocation	5,692,109	3,377,929	3,582,143	12,652,181	(12,652,181)	-	-
Total Expenses	\$ 25,116,417	\$ 19,446,489	\$ 19,870,112	\$ 64,433,018	\$ 5,574,422	\$ 886,417	\$ 70,893,857

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, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (decrease) in net assets	\$ (392,040)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	2,239,274
(Increase) decrease in accounts receivable	1,626,681
(Increase) decrease in interest receivable	19,957
(Increase) decrease in prepaid items	79,366
(Increase) decrease in inventory	64,254
(Increase) decrease in other assets	6,141
Increase (decrease) in accounts payable	214,091
Increase (decrease) in accrued expenses	<u>431,922</u>
Net Cash Provided by (Used in) Operating Activities	<u>4,289,646</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net purchase of investments	(144,158)
Acquisition of property & equipment	<u>(7,446,762)</u>
Net Cash Provided by (Used in) Investing Activities	<u>(7,590,920)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds of borrowings for non-capital purposes	50,000
Principal repayments not attributable to capital purposes	(51,766)
Principal repayments related to capital purposes	<u>(605,997)</u>
Net Cash Provided by (Used In) Capital and Related Financing Activities	<u>(607,763)</u>

NET INCREASE (DECREASE) IN CASH
AND CASH EQUIVALENTS

(3,909,037)

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD

10,374,243

CASH AND CASH EQUIVALENTS AT END OF PERIOD

\$ 6,465,206

Supplemental Disclosures

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Interest	<u><u>\$ 215,079</u></u>
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CENTERSTONE OF TENNESSEE, INC.
NOTES TO THE COMBINED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Centerstone of Tennessee, 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 of Tennessee, 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.

Promises to Give - Contributions are recognized when the donor makes a promise to give to the Organization 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 Organization 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. (See Note 3)

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 original 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.

CENTERSTONE OF TENNESSEE, INC.
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

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. Included in property, plant and equipment are assets purchased with restricted resources from state or federal grants. If the Center does not continue to use these assets in its operations, either the title to the assets or the proceeds from the approved sale of the assets will revert to the original donors.

Inventory – Inventory consists of drugs for sale through the Center's pharmacy. It is stated at the lower of cost (first-in, first-out basis) or market.

Retirement - The Center maintains a 403(b) Retirement Savings Plan for all eligible employees (See Note 7).

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

Temporarily Restricted Net Assets – The Center's temporarily restricted net assets consist of gifts to the Center and to the Centerstone Endowment Trust where the use of the funds is restricted by the terms of the gift (See Notes 3 and 14).

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.

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	\$ 13,892
Cash in checking accounts	1,099,639
Money market accounts	<u>5,351,675</u>
	<u>\$ 6,465,206</u>

CENTERSTONE OF TENNESSEE, INC.
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

3 PROMISES TO GIVE

Unconditional promises to give consist of the following:

Restricted to use in future years	\$ 4,483,634
Less: unamortized discount	<u>(419,626)</u>
Net unconditional promises to give	<u><u>\$ 4,064,008</u></u>
Amounts due in:	
Less than one year	\$ 1,146,140
One to five years	2,885,673
More than five years	<u>32,195</u>
	<u><u>\$ 4,064,008</u></u>

Uncollectible amounts for unconditional promises to give are expected to be insignificant.

4 INVESTMENTS

The Centerstone Endowment Trust carries its investments at fair market value. Investments at June 30, 2008 consist of the following:

	<u>Cost</u>	<u>Fair Value</u>
Money markets	\$ 138,490	\$ 138,490
Common stocks	4,748,907	5,270,246
Bonds	<u>926,608</u>	<u>923,745</u>
	<u><u>\$ 5,814,005</u></u>	<u><u>\$ 6,332,481</u></u>

5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Estimated Useful Lives</u>
Land	\$ 2,793,056	\$ -	
Buildings and improvements	27,163,014	(9,540,429)	10-40 years
Equipment and vehicles	<u>16,991,880</u>	<u>(9,462,645)</u>	5-20 years
	<u><u>\$ 46,947,950</u></u>	<u><u>\$ (19,003,074)</u></u>	

Total depreciation expense for 2008 was \$2,239,274.

CENTERSTONE OF TENNESSEE, INC.
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

6 NOTES PAYABLE

0% - 6.25% financed insurance	\$ 435,802
Variable rate bonds payable	400,000
8.375% note payable	179,540
Variable rate note payable	2,030,000
4.58% note payable	815,080
Variable rate note payable	50,000
8.20% note payable	165,747
	<u>4,076,169</u>
Less current maturities	<u>(1,143,516)</u>
	<u>\$ 2,932,653</u>

Insurance has been financed with three notes with interest rates ranging from 4.99 percent to 8.67 percent in the amount of \$435,802. The notes are unsecured. The notes require average monthly principal and interest payments of \$66,673 through February 2009.

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 \$406,667 bank letter of credit guaranteed by the Centerstone 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 \$400,000 at June 30, 2008.

The 8.375 percent note in the amount of \$179,540 is secured by real estate located in Clarksville, Tennessee. The note requires monthly principal and interest payments of \$1,468 through March 2031.

The 5.77(v) percent note in the amount of \$2,030,000 is secured by a building located in Shelbyville, Tennessee. The note requires monthly principal and interest payments averaging \$16,739 with a balloon payoff of \$1,636,250 in May 2012.

The 4.58 percent note in the amount of \$815,080 is secured by equipment located throughout Middle Tennessee. The note requires monthly principal and interest payments of \$20,138 through February 2012.

The 4.50(v) percent note in the amount of \$50,000 is secured by real estate located in Lewisburg, Tennessee. The note requires a balloon payment of principal and accrued interest on August 31, 2008.

The 8.20 percent note in the amount of \$165,747 is secured by equipment located throughout Middle Tennessee. The note requires monthly principal and interest payments of \$4,430 through December 2011.

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

2009	\$ 1,143,516
2010	471,562
2011	386,241
2012	1,907,819
2013	3,831

CENTERSTONE OF TENNESSEE, INC.
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

7 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, 2008 was \$1,057,395.

8 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 2008 was \$2,190,209.

9 LEASES

The Center leases property in several Tennessee counties. Total lease expense was \$915,334 for the year ended June 30, 2008.

Present values of future minimum lease payments are as follows:

2009	\$	777,038
2010		608,593
2011		335,399
2012		42,230
2013		31,780

10 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 \$3,469,378 as of June 30, 2008.

11 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 \$285,164 as of June 30, 2008.

CENTERSTONE OF TENNESSEE, INC.
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

12 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.

13 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.

14 CENTERSTONE ENDOWMENT TRUST

On October 28, 2000 Centerstone of Tennessee, Inc. established Centerstone Endowment Trust for the purpose of serving as a permanent charitable endowment fund for the support of Centerstone. Centerstone of Tennessee, Inc. is the sole trustee of the Trust. Currently, the terms of the Trust require annual distributions to Centerstone 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, 2008 was \$6,332,481 (See Note 4).

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 Centerstone.

15 CENTERSTONE OF AMERICA

On May 1, 2008, Centerstone of Tennessee, Inc., Quinco Behavioral Health Systems (of Indiana) and Center for Behavioral Health (of Indiana) officially affiliated their organizations under a new not-for-profit entity, Centerstone of America. Centerstone of America will file consolidated financials for the affiliates.

ACCOMPANYING INFORMATION

CENTERSTONE OF TENNESSEE, INC.
COMBINING STATEMENTS OF FINANCIAL POSITION
June 30, 2008

<u>ASSETS</u>		Centerstone	Cumberland Holding Corp.	Advantage Behavioral Health	Centerstone Endowment Trust	Sub-total	Eliminations	Combined Total
Current assets:								
Cash		\$ 1,440,774	\$ 32,344	\$ 93,063	\$ -	\$ 1,566,181	\$ -	\$ 1,566,181
Cash limited as to use by Board		4,619,540				4,619,540		4,619,540
Investments		15,896			572,629	588,525		588,525
Accounts receivable		9,732,717		29,780		9,762,497	(1,191,674)	8,570,823
Unconditional promises to give								
Restricted to funding for the next fiscal year		1,146,140				1,146,140		1,146,140
Other receivables		2,031,221				2,031,221	(1,965,072)	66,149
Inventory		30,977				30,977		30,977
Prepaid expenses		699,515	280	6,492		706,287		706,287
Total current assets		19,716,780	32,624	129,335	572,629	20,451,368	(3,156,746)	17,294,622
Endowment investments:								
Cash and cash equivalents		-	-	-	138,490	138,490	-	138,490
Investments		-	-	-	6,193,991	6,193,991	-	6,193,991
Less current portion		-	-	-	(572,629)	(572,629)	-	(572,629)
Total endowment investments		-	-	-	5,759,852	5,759,852	-	5,759,852
Long-term unconditional promises to give		2,917,868	-	-	-	2,917,868	-	2,917,868
Restricted to funding for fiscal years 2009-2014								
Property, plant and equipment		46,726,419	221,531	-	-	46,947,950	-	46,947,950
Less accumulated depreciation		(18,925,321)	(77,753)	-	-	(19,003,074)	-	(19,003,074)
Other assets:		27,801,098	143,778	-	-	27,944,876	-	27,944,876
Deposits		89,153	-	-	-	89,153	-	89,153
Restricted cash:								
Debt Service		102,259	-	-	-	102,259	-	102,259
Other		102,259	38,736	-	-	38,736	-	38,736
			38,736	-	-	140,995	-	140,995
TOTAL ASSETS		\$ 50,627,158	\$ 215,138	\$ 129,335	\$ 6,332,481	\$ 57,304,112	\$ (3,156,746)	\$ 54,147,366
<u>LIABILITIES</u>								
Current liabilities:								
Current maturities of long-term debt		1,140,833	2,683	-	-	1,143,516	-	1,143,516
Accounts payable		2,804,925	74,843	-	572,629	3,452,397	(1,191,674)	2,260,723
Accrued expenses		5,781,924	3,558	2,660,718		8,446,200	(1,965,072)	6,481,128
Total current liabilities		9,727,682	81,084	2,660,718	572,629	13,042,113	(3,156,746)	9,885,367
Long-term debt less current liabilities		2,755,796	176,857	-	-	2,932,653	-	2,932,653
TOTAL LIABILITIES		12,483,478	257,941	2,660,718	572,629	15,974,766	(3,156,746)	12,818,020
<u>NET ASSETS</u>								
Unrestricted		33,885,992	(42,803)	(2,531,363)	-	31,311,806	(300,000)	31,011,806
Temporarily restricted		4,257,888			5,759,852	10,017,540	300,000	10,317,540
TOTAL NET ASSETS		38,143,880	(42,803)	(2,531,363)	5,759,852	41,329,346	-	41,329,346
TOTAL LIABILITIES AND NET ASSETS		\$ 50,627,158	\$ 215,138	\$ 129,335	\$ 6,332,481	\$ 57,304,112	\$ (3,156,746)	\$ 54,147,366

CENTERSTONE OF TENNESSEE, INC.
COMBINING STATEMENTS OF ACTIVITIES
Year ended June 30, 2008

CHANGES IN UNRESTRICTED NET ASSETS									
Public Support:	Centerstone	Cumberland Holding Corp.	Advantage Behavioral Health	Centerstone Endowment Trust	Sub-total	Eliminations	Combined Total		
Contributions									
Revenue:	\$ 727,135	\$ -	\$ 971	\$ -	\$ 728,106	\$ (300,000)	\$	428,106	
Government contracts	2,042,064		148,145		2,190,209			2,190,209	
Program service fees	50,275,397				50,275,397			50,275,397	
Investment return	271,336	356			271,692			271,692	
Other	493,019	33,369	1,004,662		1,531,050	(1,004,662)		526,388	
TOTAL UNRESTRICTED SUPPORT & REVENUE	53,808,951	33,725	1,153,778	-	54,996,454	(1,304,662)		53,691,792	
Net assets released from restrictions:									
Restrictions satisfied by grant compliance	16,766,156	-	-	-	16,766,156	-		16,766,156	
TOTAL UNRESTRICTED SUPPORT, REVENUE AND RECLASSIFICATIONS	70,575,107	33,725	1,153,778	-	71,762,610	(1,304,662)		70,457,948	
Expenses:									
Program services	64,342,301	90,717	1,004,662	-	65,437,680	(1,004,662)		64,433,018	
Supporting services	4,996,171		578,251		5,574,422			5,574,422	
Development	886,417				886,417			886,417	
TOTAL EXPENSES	70,224,889	90,717	1,582,913	-	71,898,519	(1,004,662)		70,893,857	
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	350,218	(56,992)	(429,135)	-	(135,909)	(300,000)		(435,909)	
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS									
Government contracts/grants	14,579,058	-	-	-	14,579,058	-		14,579,058	
Contributions	2,456,742			20,909	2,477,651			2,477,651	
Investment return				(246,684)	(246,684)			(246,684)	
Investment/professional fees									
Contributions made				(300,000)	(300,000)	300,000		-	
Net assets released from restrictions	(16,766,156)				(16,766,156)			(16,766,156)	
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	269,644	-	-	(525,775)	(256,131)	300,000		43,869	
INCREASE (DECREASE) IN NET ASSETS	619,862	(56,992)	(429,135)	(525,775)	(392,040)	-		(392,040)	
NET ASSETS BEGINNING OF YEAR	37,523,818	14,189	(2,102,248)	6,285,627	41,721,386			41,721,386	
NET ASSETS END OF YEAR	\$ 38,143,680	\$ (42,803)	\$ (2,531,383)	\$ 5,759,852	\$ 41,329,346	\$ -		\$ 41,329,346	

CENTERSTONE OF TENNESSEE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2008

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	June 30, 2007 (Accrued)	Federal Receipts	Federal Expenditures	June 30, 2008 (Accrued)
U.S. Dept. of Agriculture						
TN Department of Education	10.553/10.555	DA0821473	\$ -	\$ 6,794	\$ (6,794)	\$ -
School Breakfast/Lunch Program	10.553/10.555	DA0700143	-	2,370	(2,370)	-
Subtotal-U.S. Dept. of Agriculture			-	9,164	(9,164)	-
U.S. Dept. of Housing & Urban Development						
Tennessee Department of Human Services	14.231	Z07031491	(474)	474	-	-
Emergency Shelter Grant	14.231	Z08022619	-	10,961	(11,171)	(210)
Subtotal-U.S. Dept. of Housing & Urban Development			(474)	11,435	(11,171)	(210)
U.S. Dept. of Justice						
TN Dept. of Finance and Administration	16.575	Z070303108	(6,834)	39,308	(39,661)	(7,187)
Victims of Crime Assistance	16.575	Z070303110	(3,707)	26,439	(32,808)	(10,076)
Victims of Crime Assistance	16.575	Z070303127	(14,258)	46,445	(43,267)	(11,080)
Subtotal-U.S. Dept. of Justice			(24,799)	112,192	(115,736)	(28,343)
U.S. Dept. of Education						
Clarksville Montgomery Co. School System	84.215		-	335,907	(417,785)	(81,878)
Fund for the Improvement of Education			-	335,907	(417,785)	(81,878)
Subtotal-U.S. Dept. of Education			-	335,907	(417,785)	(81,878)
U.S. Dept. of Health & Human Services						
SPRANS-Community Based Abstinence Program	93.010	1-H1DMC03202	(335,382)	446,646	(266,740)	(155,476)
IMPACT-Centerstone's Older Adult Program	93.243	5H79SM56910	(81,281)	411,924	(404,855)	(74,222)
Methamphetamine Awareness & Prevention	93.243	1H79SP014042	(49,767)	290,775	(296,304)	(54,296)
Project Self	93.243	1H79T107755	(83,349)	357,529	(328,608)	(54,428)
Co-Occurring Continuum HIV	93.243	1H79T019313	-	193,271	(272,156)	(78,885)
SAMHSA-Clarksville Homeless Adult Program	93.243	1H79T018870	-	150,658	(211,424)	(60,766)
TN Dept. of Mental Health & Developmental Disabilities	93.275	6H79T116562	(99,993)	404,435	(367,054)	(62,612)
Building Strong Families	93.087	GR0823783	-	133,861	(205,111)	(71,250)
Child Mental Health Service Initiative	93.104	GR0617719	(236,001)	797,262	(756,968)	(195,707)
Mental Health Recovery Services	93.150	GR0717903	(32,510)	32,510	-	-
Mental Health Recovery Services	93.150	GR0821576	-	57,006	(70,928)	(13,922)
CMHS Suicide	93.243	GR0617680	(16,792)	62,001	(56,893)	(11,484)
Data Infrastructure Grant	93.243	Z-07033417	(2,559)	6,172	(4,597)	(984)
Community Mental Health Services	93.958	GR0717903	(181,466)	181,466	-	-
Community Mental Health Services	93.958	GR0821461	(184,685)	724,585	(726,200)	(1,615)
Community Mental Health Services	93.958	GR0718116	-	184,685	-	-
Community Mental Health Services	93.958	GR0821571	-	54,492	(70,000)	(15,508)
Community Mental Health Services	93.958	GR0821843	-	339,986	(403,938)	(63,953)
Center for Substance Abuse Treatment	93.958	GR0617745	(166,078)	489,943	(479,690)	(155,825)
Criminal Justice Liason	93.958	GR0717897	(21,514)	21,514	-	-
Criminal Justice Liason	93.958	GR0821764	(198,370)	100,600	(105,000)	(4,400)
Substance Abuse Treatment for Older Adults	93.243	GR0516746	-	414,150	(222,649)	(6,868)
Alcohol & Drug Abuse	93.959	Z-08023615	-	391,932	(450,492)	(58,560)
TN Dept. of Finance & Administration	93.778	GR0721536	(68,772)	68,772	(441,672)	(441,672)
General Continuum Crisis Services						
TN Dept. of Health						
Alcohol & Drug Abuse	93.959	Z07034131	(96,679)	96,679	-	-
Community Prevention Initiative (Strengthening Families)	93.959	GR0718111	(61,651)	61,651	-	-
Community Prevention Initiative (Strengthening Families)	93.959	GR0822413	-	59,337	(65,981)	(6,644)
Project Star	93.959	GR0823002	(60,942)	96,150	(127,377)	(31,227)
Project Star	93.959	GR0718158	-	60,942	-	-
Metro Davidson Co. Board Of Health		N/A	(19,344)	19,344	-	-
Community Prevention Initiative (Peer Power)			(1,987,145)	6,710,277	(6,333,437)	(1,620,305)
Subtotal U.S. Dept. of Health & Human Services			(2,022,418)	7,178,975	(6,887,293)	(1,730,736)
Total Federal Awards			\$ (2,022,418)	\$ 7,178,975	\$ (6,887,293)	\$ (1,730,736)

See accompanying notes to schedules.

CENTERSTONE OF TENNESSEE, INC.
SCHEDULE OF STATE GRANT ACTIVITY
Year ended June 30, 2008

State Grantor/ Program Title	State Grantor Number	June 30, 2007 (Accrued)	State Receipts	State Expenditures	June 30, 2008 (Accrued)
TN Dept. of Mental Health & Developmental Disabilities					
Community Mental Health Services	GR0718116	(216,891)	216,891	-	-
Mental Health Recovery Services	GR0717903	(770,889)	770,889	-	-
Mental Health Recovery Services	GR0821461	-	114,704	(301,390)	(186,686)
PATH	GR0821576	-	6,579	(9,284)	(2,705)
Regional Housing	GR0821842	-	224,824	(347,239)	(122,415)
Regional Intervention	GR0921843	-	231,823	(291,496)	(59,673)
Forensic Services	GR0820559	-	39,950	(39,950)	-
Forensic Services	GR0717825	(10,050)	10,050	-	-
School Bases MH Liason	GR0821725	-	159,468	(186,560)	(27,092)
Criminal Justice Liason	GR0717897	(38,130)	38,130	-	-
Criminal Justice Liason	GR0821764	-	-	(35,000)	(35,000)
Crisis Respite Services	GR0721722	(433,101)	466,950	(470,688)	(436,839)
Safety Net	Z07033254	(291,564)	1,371,382	(1,443,565)	(363,747)
All Hazard Training	GR0718131	(10,677)	23,677	(13,000)	-
Walk-In Triage	GR0720930	-	161,940	(161,940)	-
Alcohol & Drug Abuse	Z08023615	-	82,431	(98,925)	(16,494)
TN Dept. of Health					
Alcohol & Drug Abuse	Z07034131	(25,699)	25,699	-	-
TN Dept. of Finance & Administration					
General & Continuum Crisis Behavioral Health Sys	GR0721536	(38,684)	38,684	-	-
TN Dept. of Children's Services					
Level II Continuum	P2C000001	(458,829)	2,730,890	(2,738,496)	(466,435)
Level III Continuum	P3C000001	(104,325)	951,433	(997,150)	(150,042)
Level I Foster Care	PFC000001	(50,544)	303,692	(279,830)	(26,682)
Responsible Parenting	GR0617773	(15,812)	15,812	-	-
Responsible Parenting	GR0821351	-	46,983	(55,444)	(8,461)
Strengthening Families	GR0617766	(23,284)	23,284	-	-
Total State Grant Activity		\$ (2,488,479)	\$ 8,056,165	\$ (7,469,957)	\$ (1,902,271)

See accompanying notes to schedules.

CENTERSTONE OF TENNESSEE, 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 of Tennessee, 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.



THURMAN, CAMPBELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
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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**

To the Board of Directors
Centerstone of Tennessee, Inc.

We have audited the financial statements of Centerstone of Tennessee, Inc. (Organization) as of and for the year ended June 30, 2008, and issued our report thereon dated November 17, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization'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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of the 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 organization'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 organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. See finding 08-1.

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 organization's internal control.

Our consideration of the 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 also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States.

We noted certain matters that we reported to management of Centerstone of Tennessee, Inc. in a separate letter dated November 17, 2008.

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

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.

Shurman Campbell & Co. CPAs

November 17, 2008