CENTERSTONE OF TENNESSEE, INC.

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2011 AND 2010

CPAs / ADVISORS

blue

CENTERSTONE OF TENNESSEE, INC.

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated statements of financial position of Centerstone of Tennessee, Inc. (the Center) as of June 30, 2011 and 2010 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 audits.

We conducted our audits 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 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 audits provide 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, 2011 and 2010, and its changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, a beneficial interest in the Community Foundation of Middle Tennessee was not included in the financial statements resulting in the understatement of previously reported assets, temporarily restricted net assets and permanently restricted net assets as of July 1, 2009. Accordingly, an adjustment has been made to the 2010 consolidated financial statements to account for the beneficial interest and the related changes in value.

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

As explained in Notes 1 and 2 to the consolidated financial statements, the Center is part of an affiliated group of entities. The Center is included in the reporting entity, Centerstone of America, and these consolidated financial statements include only the financial position, changes in net assets and cash flows of the Center.

In accordance with *Government Auditing Standards*, we have issued our report dated December 6, 2011, on our consideration of the Center'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 audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements. 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 consolidated financial statements of the Center. 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 consolidated financial statements Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

December 6, 2011

CENTERSTONE OF TENNESSEE, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

ASSETS

	2011	2010 Restated
Current assets		
Cash and cash equivalents	$ 4,185,898	$ 355,139
Restricted cash	40,652	39,732
Unconditional promises to give, current	-0-	761,062
Accounts receivable, net	1,698,456	3,707,754
Other receivables	3,060,160	2,676,437
Due from affiliated entities	1,289,372	6,665,485
Prepaid expenses and other current assets	244,906	292,820
Total current assets	10,519,444	14,498,429
Property and equipment, net	20,560,206	21,349,671
Other assets	4,250	92,878
Unconditional promises to give	-0-	1,784,636
Beneficial interest	7,271,141	1,099,689
Assets whose use is limited	5,936,471	4,893,801
Total assets	$ 44,291,512	$ 43,719,104

LIABILITIES AND NET ASSETS

	2011	2010 Restated
Current liabilities		
Current portion of long term debt	$ 2,353,047	$ 336,356
Accounts payable and accrued expenses	3,213,334	2,686,057
Accrued payroll, benefits and taxes	4,764,416	4,573,904
Estimated third party settlements	1,625,000	2,876,750
Other current liabilities	2,758	3,612
Total current liabilities	11,958,555	10,476,679
Long term debt, net of current portion	167,314	2,049,806
Total liabilities	12,125,869	12,526,485
Net assets		
Unrestricted	19,480,450	20,761,888
Temporarily restricted	7,040,086	4,785,624
Permanently restricted	5,645,107	5,645,107
Total net assets	32,165,643	31,192,619
Total liabilities and net assets	$ 44,291,512	$ 43,719,104

See accompanying notes to consolidated financial statements.

CENTERSTONE OF TENNESSEE, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010 Restated
Revenue and other support		
Net client service revenue	$ 44,660,121	$ 37,355,433
Public support	21,506,451	20,598,434
Net assets released from restriction	624,431	901,630
Other	1,061,823	549,816
Total revenue and other support	67,852,826	59,405,313
Expenses		
Salary and fringe benefits	37,849,213	38,150,881
Telephone	1,267,321	1,591,510
Travel	1,782,456	1,437,830
Drugs and supplies	3,135,298	3,101,271
Printing and postage	177,965	187,898
Contracted services	5,923,912	4,579,288
Purchased services	1,459,213	1,490,439
Affiliated management fees	9,054,456	4,131,470
Rents and leases	188,591	192,476
Utilities	2,234,549	2,388,097
Repairs and maintenance	320,558	401,488
Depreciation and amortization	1,335,601	1,710,448
Insurance	303,000	409,757
Bad debt	1,552,048	2,674,622
Interest	60,018	44,649
Miscellaneous	886,115	609,065
Total expenses	67,530,314	63,101,189
Operating gain (loss)	322,512	(3,695,876)
Nonoperating revenues (expenses)		
Loss on disposal of equipment	(9,720)	(5,727)
Contributions, net	(202,032)	916,484
Gain on investments	328	428
Net assets released from restriction	582,819	-0-
Interest and dividend income	125	3,198
Other nonoperating income (expense)	40,953	(307,148)
Total nonoperating revenues and expenses	412,473	607,235
Excess of revenue over (under) expenses	$ 734,985	$ (3,088,641)

See accompanying notes to consolidated financial statements.

CENTERSTONE OF TENNESSEE, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010 Restated
Other changes in unrestricted net assets		
Equity transfer with Centerstone Research Institute	$ (1,769,083)	$ 1,769,083
Equity transfer with Centerstone Foundation	(247,340)	-0-
Equity transfer with Advantage Behavioral Health	-0-	(3,360,784)
Change in unrestricted net assets	(1,281,438)	(4,680,342)
Temporarily restricted net assets		
Contributions and pledges	-0-	501,031
Gain on investments	881,404	575,796
Change in value of beneficial interest	2,467,672	118,503
Net assets released from restriction	(1,207,251)	(901,630)
Interest and dividend income	112,637	53,517
Change in temporarily restricted net assets	2,254,462	347,217
Change in net assets	973,024	(4,333,125)
Net assets, beginning of year restated	31,192,619	35,525,744
Net assets, end of year	$ 32,165,643	$ 31,192,619

See accompanying notes to consolidated financial statements.

CENTERSTONE OF TENNESSEE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010 Restated
Operating activities		
Change in net assets	$ 973,024	$ (4,333,125)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	1,335,601	1,710,448
Bad debt	1,552,048	2,674,622
Gain on investments	(881,732)	(576,224)
Allowance on unconditional promises to give	-0-	161,069
Loss on disposal of assets	9,720	5,727
Change in value of beneficial interest	(2,467,672)	(118,503)
Equity transfer with Centerstone Research Institute	1,769,083	(1,769,083)
Equity transfer with Advantage Behavioral Health	-0-	3,360,784
Changes in operating assets and liabilities		
Accounts receivable, net	457,250	(3,678,556)
Other receivables	(383,723)	860,514
Prepaid expenses and other current assets	47,914	(15,216)
Other assets	88,628	1,961,238
Beneficial interest	(3,703,780)	-0-
Due to/from affiliate entities	5,376,113	(697,035)
Promises to give, net	2,545,698	72,538
Accounts payable and accrued expenses	527,277	592,950
Accrued payroll, benefits and taxes	190,512	(490,896)
Estimated third party settlements and other liabilities	(1,252,604)	573,668
Net cash flows from operating activities	6,183,357	294,920
Investing activities		
Purchase of property and equipment	(555,856)	(597,021)
Change in assets whose use is limited, net	(160,938)	326,572
Net cash flows from investing activities	(716,794)	(270,449)
Financing activities		
Equity transfer with Centerstone Research Institute	(1,769,083)	1,769,083
Equity transfer with Advantage Behavioral Health	-0-	(3,360,784)
Proceeds from the issuance of debt	475,000	-0-
Principal payments on long term debt	(340,801)	(657,562)
Net cash flows from financing activities	(1,634,884)	(2,249,263)
Net change in cash and cash equivalents	3,831,679	(2,224,792)
Cash and cash equivalents, beginning of year	394,871	2,619,663
Cash and cash equivalents, end of year	$ 4,226,550	$ 394,871
Noncash financing activities		
Property transfers recorded in due from affiliated entities	$ -0-	$ (5,189,754)
Supplemental cash flows information		
Cash paid for interest	$ 60,018	$ 44,649

See accompanying notes to consolidated financial statements.

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 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 financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. 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.

Affiliated Entities

The Center is part of an affiliated group of entities. The Center is included in the reporting entity, Centerstone of America (Parent), and these consolidated financial statements include only the financial position, changes in net assets and cash flows of the Center.

Centerstone of America, Inc. is the holding company of the Center. Centerstone of America has the following subsidiaries under control: Advantage Behavioral Health, Johnson Nichols, and Not Alone, Inc. Advantage Behavioral Health is a not-for-profit organization that provides billing and administrative services and support to behavioral health organizations. Johnson Nichols is a health clinic where the Center pays the salaries generated at Johnson Nichols and is reimbursed accordingly. Not Alone, Inc. provides support services to veterans and, active members of the armed forces and military families.

Centerstone of Indiana, Inc. is a not-for-profit community mental health center with locations in various counties in Indiana and is the sole member of Centerstone Foundation, Inc. Centerstone Foundation, Inc. is a not-for-profit organization that receives contribution and support for the affiliated entities of Centerstone of America, Inc. Centerstone of Indiana, Inc. is a Sister corporation of the Center.

Centerstone Research Institute is a not-for-profit company dedicated to improving health care delivery through research and technology.

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: market gains and losses associated with the investments of Centerstone Endowment Trust where the use of the funds is restricted by the investment policy and the beneficial interest in Centerstone Foundation, Inc.

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. The corpuses of the gifts are restricted in perpetuity.

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.

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.

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. 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. Gifts of of long-lived assets are reported at fair value.

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.

Other Receivables

The Center has recorded receivables from federal and state agencies related to grants under contract. The Center expects full collection of these receivables

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.

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

Assets Whose Is 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, 2011 and 2010 was $5,921,146 and $4,886,835, 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. Other amounts consisting of $15,325 and $6,966 as of June 30, 2011 and 2010, are designated by the board of Centerstone of Tennessee, Inc.

Performance Indicator and Operating Indicator

The consolidated statements of activities and changes in net assets include a performance indicator, excess of revenue over (under) expenses. Changes in unrestricted net assets which would be excluded from net income include gifts of long-lived property, equity transfers, 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), contributions from donors and related parties, 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 $286,086 and $119,135 for June 30, 2011 and 2010, 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:

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

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 doubtful accounts based on an evaluation of historical adjustments and losses, current economic conditions and factors unique to payor situations. The Center's allowances for doubtful accounts as of June 30, 2011 and 2010 were $2,340,296 and $2,455,607, respectively.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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, results of operations and cash flows.

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.

Contributions

Centerstone of Tennessee, Inc. receives contribution support from Centerstone Endowment Trust, Inc. and Centerstone Foundation, Inc., which is an affiliated entity consolidated with Centerstone of Indiana, Inc. Amounts will be eliminated upon consolidation of these financial statements and the consolidated financial statements of Centerstone of America, Inc.

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 $1,625,000 and $2,876,750 as of June 30, 2011 and 2010, 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. Amounts recorded for charity care as June 30, 2011 and 2010 were approximately $240,000 and $-0- respectively.

Income Taxes

Centerstone of Tennessee, Inc., Centerstone Endowment Trust, and Cumberland Holding Corporation are organized as not-for-profit corporations under Section 501(c) (3) of the United States Internal Revenue Code. As such they are generally exempt from income taxes. However, they are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Center and subsidiaries to recognize a tax liability if they have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Center and subsidiaries and has concluded that as of June 30, 2011 and 2010, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Center and subsidiaries are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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 December 6, 2011.

Reclassification

Certain amounts in the 2010 financial statements have been reclassified herein to conform to the current year presentation

2. AFFILIATED ENTITY TRANSACTIONS

The Center entered certain working capital transactions, administrative and general transactions, and property transfers with its Parent and Sister corporations as are disclosed in Note 1. The Center has recorded a related receivable in the amount of $1,289,372 and $6,665,485 as of June 30, 2011 and 2010, respectively. The Center transferred certain property and equipment to affiliated entities through the due from affiliates account in the amount of $5,189,754 for the year ended June 30, 2010. For the years ended June 30, 2011 and 2010, the Center incurred malpractice and liability insurance expense in the approximate amount of $305,000 and $410,000, which was paid by the Parent and will be reimbursed through due to accounts. In addition for the years ended June 30, 2011 and 2010, the Center incurred affiliated management fees in the amount of $9,054,456 and $4,131,470, respectively, for services provided by its Parent corporation.

The Center transferred oversight and agency function to Centerstone Foundation, Inc. comprised of unconditional promises to give in the amount of $2,298,358 and due to/from amounts in the amount of $2,381,873 for a total of $4,680,231 during 2011. This transaction created a beneficial interest in Centerstone Foundation (Footnote 4).

3. PRIOR PERIOD ADJUSTMENT

A Beneficial Interest in the Community Foundation of Middle Tennessee was not reported in the Center's financial statements resulting in understatement of previously reported assets and related temporarily restricted net assets as of July 1, 2009. Accordingly, an adjustment has been made to the 2010 consolidated financial statements to reflect the Beneficial Interest:

	Year Ended June 30, 2010		
	Originally Reported	Adjustment	Restated
Consolidated statements of financial position			
Beneficial interest in Community Foundation of Middle Tennessee - At July 1, 2009	$ -0-	$ 981,186	$ 981,186
Net assets - temporarily restricted - At July 1, 2009	$ 4,786,534	$ (18,814)	$ 4,767,720
Net assets - permanently restricted - At July 1, 2009	$ 4,315,794	$ 1,000,000	$ 5,315,794
Beneficial interest in Community Foundation of Middle Tennessee - At June 30, 2010	$ -0-	$ 1,099,689	$ 1,099,689
Net assets - temporarily restricted - At June 30, 2010	$ 4,685,935	$ 99,689	$ 4,785,624
Net assets - permanently restricted - At June 30, 2010	$ 4,645,107	$ 1,000,000	$ 5,645,107
Consolidated statements of activities and changes in net assets			
Change in value of beneficial interest - Year Ended June 30, 2010	$ -0-	$ 118,503	$ 118,503
Change in net assets - Year Ended June 30, 2010	$ (4,451,628)	$ 118,503	$ (4,333,125)
Consolidated statements of cash flows			
Operating activities:			
Net loss	$ (4,451,628)	$ 118,503	$ (4,333,125)
Adjustments to reconcile change in net assets to net cash flows from operating activities:			
Change in value of beneficial interest - Year Ended June 30, 2010	$ -0-	$ (118,503)	$ (118,503)

4. BENEFICIAL INTEREST

During the fiscal year ending June 30, 2005, the Center transferred $1,000,000 to the Community Foundation of Middle Tennessee (Community Foundation) to establish an investment in an Agency Endowment Fund that specifies the Center as the beneficiary. The intended use of the Agency Endowment Fund is to support the Center's mission of serving the needy. Variance power has been granted to the Community Foundation to make distributions from the fund in accordance with the Community Foundation's Articles of Incorporation and in accordance with the Center's expressed intent. The Center has the right and responsibility to recommend distributions of principal and income, but those recommendations are advisory in nature.

The beneficial interest is reported at fair value for the years ended June 30, 2011 and June 30, 2010. The following schedule summarizes the investment expenses and earnings and its classification in the Statement of Activities and Changes in Net Assets.

	2011	2010 Restated
Beneficial interest in Community Foundation of Middle Tennessee, beginning of year	$ 1,099,689	$ 981,186
Investment expenses	(7,827)	(3,727)
Investment earnings	174,795	122,230
Beneficial interest in Community Foundation of Middle Tennessee, end of year	$ 1,266,657	$ 1,099,689

Fair value of the beneficial interest is estimated as the net asset value of the underlying shares in the Community Foundation's investment pool. Fair value is determined in this manner because there are no observable market transactions for assets similar to the beneficial interest in the Agency Endowment Fund. Because there is no observable market transactions and because the Center can only redeem the resources at net asset value for its own use subject to the approval of the governing board of the Community Foundation, this fair value measure is a level 3 measure as defined in FASB ASC 820, Fair Value Measurement.

On July 1, 2010, the Center transferred the oversight function of certain assets for improved efficiencies to an affiliated entity, Centerstone Foundation, Inc. These assets are shown as beneficial interests on the Center's financial statements. The Foundation's financial statements reflect the original amount transferred less amounts returned as an agency liability.

Donor restricted amounts received by the Foundation subsequent to July 1, 2010 related to the Center are reflected as temporarily restricted net assets on the Foundation's financial statements and are also reflected on the Center's financial statement as beneficial interests. As of June 30, 2011 the Foundation reflects the agency liability related to the Center in the amount of $3,703,780 and Center related net assets of $2,300,704. The beneficial interest is reported at fair value for the year ended June 30, 2011.

The following schedule summarizes the activity in the beneficial interest in Centerstone Foundation, Inc.:

	2011	2010 Restated
Beneficial interest in Centerstone Foundation, Inc., beginning of year	$ -0-	$ -0-
Initial funds transferred	4,680,231	-0-
Funds received	2,300,704	
Funds returned	(976,451)	-0-
Beneficial interest in Centerstone Foundation, Inc., end of year	$ 6,004,484	$ -0-

Fair value of the beneficial interest is estimated based upon the net asset value of its interest in Centerstone Foundation, Inc. Fair value is determined in this manner because there are no observable market transactions for assets similar to the beneficial interest. Because there is no observable market transactions and because the Center can only redeem the resources at net asset value for its own use subject to the approval of the governing board and as underlying pledges are collected, this fair value measure is a level 3 measurement.

5. ASSETS WHOSE USE IS LIMITED

The composition of assets limited as to use at June 30, 2011 and 2010 is set forth in the following table. The assets are limited to board designation. Investments are stated at fair value.

	2011	2010
Cash and cash equivalents	$ 77,059	$ 103,248
Mutual funds and equities	5,859,412	4,790,553
	$ 5,936,471	$ 4,893,801

Investment income (loss) consists of the following for 2011 and 2010:

	2011		2010	
Interest and dividend income	$	112,762	$	56,715
Unrealized gain on investments		309,269		246,349
Realized gain on investments		572,463		329,875
	$	994,494	$	632,939

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 and 2010 are as follows:

	June 30, 2011			
Assets	Total	Level 1	Level 2	Level 3
Assets limited as to use				
Equity securities				
Domestic	$ 1,350,551	$ 1,350,551	$ -0-	$ -0-
Foreign common & American Depository Receipts (ADR)	342,245	342,245	-0-	-0-
Real estate investment trust	36,690	36,690	-0-	-0-
Exchange traded funds	847,207	847,207	-0-	-0-
Mutual funds				
Blend	1,048,409	1,048,409	-0-	-0-
Growth	798,565	798,565	-0-	-0-
Fixed income	1,243,462	1,243,462	-0-	-0-
High yield	192,283	192,283	-0-	-0-
	5,859,412	$ 5,859,412	$ -0-	$ -0-
Cash and cash equivalents	77,059			
Total	$ 5,936,471			
Beneficial interest	$ 7,271,141	$ 6,004,484	$ -0-	$ 1,266,657

	June 30, 2010			
Assets	Total	Level 1	Level 2	Level 3
Assets limited as to use				
Equity securities				
Domestic	$ 1,116,452	$ 1,116,452	$ -0-	$ -0-
Foreign common & American Depository Receipts (ADR)	252,610	252,610	-0-	-0-
Exchange traded funds	23,062	23,062	-0-	-0-
Mutual funds				
Value	690,027	690,027	-0-	-0-
Blend	439,567	439,567	-0-	-0-
Growth	843,285	843,285	-0-	-0-
Fixed income	1,261,105	1,261,105	-0-	-0-
High yield	164,445	164,445	-0-	-0-
	4,790,553	$ 4,790,553	$ -0-	$ -0-
Cash and cash equivalents	103,248			
Total	$ 4,893,801			
Beneficial interest	$ 1,099,689	$ -0-	$ -0-	$ 1,099,689

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 based on short-term maturity.

- Long-term debt: Fair value of the Center's variable rate notes payable is based on current value. Fair value of the Corporation's fixed rate notes payable is estimated by using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Center's remaining long-term debt approximates carrying value based on the relatively short maturities and variable nature of the primary debt.

7. PROPERTY AND EQUIPMENT

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

	2011	2010
Land	$ 2,957,557	$ 2,957,557
Buildings and improvements	27,321,942	25,257,497
Furnishings, equipment and vehicles	11,893,388	11,731,518
Construction in progress	857,866	2,665,148
	43,030,753	42,611,720
Accumulated depreciation and amortization	(22,470,547)	(21,262,049)
	$ 20,560,206	$ 21,349,671

8. 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. The Center transferred oversight of remaining pledges and related allowances to Centerstone Foundation, Inc. during July 2010 and concurrently recognizes these assets as a beneficial interest in Centerstone Foundation, Inc.

	2011	2010
Promises to give	$ -0-	$ 3,401,059
Net present value discount	-0-	(515,255)
Allowance for uncollectible pledges	-0-	(340,106)
	$ -0-	$ 2,545,698
Amounts due in:		
Less than one year	$ -0-	$ 761,062
One to five years	-0-	1,784,636
	$ -0-	$ 2,545,698

9. LONG TERM DEBT

Long term debt consists of the following:

	2011	2010
Note payable, 8.37% fixed interest rate, requiring monthly principal and interest payments of $1,468 through March, 2031, collateralized by real estate located in Clarksville, TN	$ 170,820	$ 177,321
Note payable, variable interest rate, which was 2.13% at June 30, 2011, 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	1,715,000	1,820,000
Note payable, 4.58% fixed interest rate, monthly principal and interest payments of $20,138 through February 2012, collateralized by equipment located throughout Middle Tennessee	159,541	388,841
Note payable, variable interest rate, which was 2.96% at June 30, 2011, monthly interest payments with a balloon payoff of principal occurring in March 2012 collateralized by building	475,000	-0-
	2,520,361	2,386,162
Current portion	(2,353,047)	(336,356)
Total long term debt	$ 167,314	$ 2,049,806

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

2012	$ 2,353,047
2013	3,523
2014	3,829
2015	4,163
2016	4,525
Thereafter	151,274
	$ 2,520,361

10. NET ASSETS

The Center has a beneficial interest in Centerstone Foundation, Inc. after transferring oversight and agency functions in July 2010. Temporarily restricted net assets are available for the following purposes as of June 30, 2011 and 2010:

	2011	2010 Restated
Dede Wallace Campus	$ 5,781,201	$ 3,076,275
CAFS Programs	-0-	1,000
Unmet Needs	16,238	267,911
SE Middle TN Programs	-0-	1,600
Research	975,990	1,332,131
Not alone	-0-	5,000
Charity care	-0-	2,018
Beneficial Interest in Community Foundation of Middle Tennessee	266,657	99,689
	$ 7,040,086	$ 4,785,624

Permanently restricted net assets consist of the following as of June 30, 2011 and 2010:

	2011	2010
Permanent Endowments	$ 4,645,107	$ 4,645,107
Beneficial interest in Community Foundation of Middle Tennessee	1,000,000	1,000,000
	$ 5,645,107	$ 5,645,107

11. ENDOWMENT FUNDS

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.

The endowment net assets composition by type of fund as of June 30, 2011 and 2010:

	2011	2010
Permanently restricted net assets		
Donor-restricted endowment funds	$ 4,645,107	$ 4,645,107
Beneficial Interest	1,000,000	1,000,000
Temporarily restricted net assets		
Donor-restricted endowment funds	1,043,432	318,797
Total endowment funds	$ 6,688,539	$ 5,963,904

The Center incurred the following changes in endowment net assets for the year ended June 30, 2011 and 2010:

	Permanently restricted		Temporarily restricted	
	2011	2010 Restated	2011	2010 Restated
Endowment and Beneficial Interest net assets, beginning of year	$ 5,645,107	$ 5,645,107	$ 318,797	$ 13,819
Net investment income and other changes	-0-	-0-	724,635	304,978
Endowment and Beneficial Interest net assets, end of year	$ 5,645,107	$ 5,645,107	$ 1,043,432	$ 318,797

The Center has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by law. In accordance with the law, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Center, and (7) the Center's investment policies.

12. FUNCTIONAL EXPENSES

The Center provides behavioral healthcare services to residents within its geographic location. Expenses related to providing these services for 2011 and 2010 are as follows:

	2011	2010
Behavioral health care services	$ 58,415,840	$ 54,456,326
General and administrative	9,114,474	8,644,863
	$ 67,530,314	$ 63,101,189

13. 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. During 2009, the Center voted to freeze employer contributions. In December 2010, the Center reinstituted the discretionary employer contribution. The Plan had accumulated forfeiture funds that the Center used as employer contributions so no expense or cash was needed for the transactions.

14. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Center has several operating leases, for certain operating facilities and equipment through 2016. Total rent expense was and $188,591 and $192,476 for the year ended June 30, 2011 and 2010, respectively.

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

2012	$ 102,761
2013	45,914
2014	31,511
2015	31,511
2016	5,252
Total minimum lease payments	$ 216,949

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 deductible 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, 2011 and 2010 aggregated $3,610,955 and $3,998,533 respectively. The Center has purchased insurance, which limits its exposure on a per individual basis to $135,000, with no annual aggregate basis stop loss provision.

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, 2011 and 2010 was $2,783,592 and $2,817,202, 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, results of operations and cash flows.

Guarantee

The Center became a guarantor along with certain other Sister corporations to a line of credit providing maximum borrowings of $3,500,000 issued to the Parent corporation during 2010. Any draws bear interest at 3.25%. There were no outstanding borrowings on the line of credit at June 30, 2011 and 2010. The line was extended during 2011 to May 27, 2012. Should the Center be required to pay any portion of the total amount of the loans it has guaranteed, the Center could attempt to recover some or the entire amount from guaranteed parties. The Center holds patient accounts receivable as collateral in respect of the guarantees.

15. 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 net revenues from clients and third-party payors were as follows:

	Receivables		Revenue	
	2011	2010	2011	2010
Medicare	5%	14%	6%	6%
Medicaid	3%	2%	1%	1%
TennCare	66%	70%	87%	85%
Self-pay	10%	2%	3%	5%
Other third-party payors	16%	12%	3%	3%
	100%	100%	100%	100%

SUPPLEMENTARY INFORMATION

CENTERSTONE OF TENNESSEE, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS	Centerstone of Tennessee, Inc.	Centerstone Endowment Trust	Cumberland Holding Co., Inc	Eliminations	Total
Current assets					
Cash and cash equivalents	$ 4,136,915	$ -0-	$ 48,983	$ -0-	$ 4,185,898
Restricted cash	-0-	-0-	40,652	-0-	40,652
Accounts receivable, net	1,698,456	-0-	-0-	-0-	1,698,456
Other receivables	3,060,160	-0-	-0-	-0-	3,060,160
Due from affiliated entities	1,940,745	-0-	-0-	(651,373)	1,289,372
Prepaid expenses and other current assets	244,906	-0-	-0-	-0-	244,906
Total current assets	11,081,182	-0-	89,635	(651,373)	10,519,444
Property and equipment, net	20,416,428	-0-	143,778	-0-	20,560,206
Other assets	4,250	-0-	-0-	-0-	4,250
Beneficial interest	6,004,484	1,266,657	-0-	-0-	7,271,141
Assets whose use is limited	15,325	5,921,146	-0-	-0-	5,936,471
Total assets	$ 37,521,669	$ 7,187,803	$ 233,413	$ (651,373)	44,291,512
LIABILITIES AND NET ASSETS					
Current liabilities					
Current portion of long term debt	$ 2,349,541	$ -0-	$ 3,506	$ -0-	$ 2,353,047
Accounts payable and accrued expenses	3,212,048	-0-	1,286	-0-	3,213,334
Accrued payroll, benefits and taxes	4,764,416	-0-	-0-	-0-	4,764,416
Estimated third party settlements	1,625,000	-0-	-0-	-0-	1,625,000
Due to affiliated entities	-0-	499,264	152,109	(651,373)	-0-
Other current liabilities	-0-	-0-	2,758	-0-	2,758
Total current liabilities	11,951,005	499,264	159,659	(651,373)	11,958,555
Long term debt, net of current portion	-0-	-0-	167,314	-0-	167,314
Total liabilities	11,951,005	499,264	326,973	(651,373)	12,125,869
Net assets					
Unrestricted	19,866,180	7,830	(93,560)	(300,000)	19,480,450
Temporarily restricted	5,704,484	1,035,602	-0-	300,000	7,040,086
Permanently restricted	-0-	5,645,107	-0-	-0-	5,645,107
Total net assets	25,570,664	6,688,539	(93,560)	-0-	32,165,643
Total liabilities and net assets	$ 37,521,669	$ 7,187,803	$ 233,413	$ (651,373)	$ 44,291,512

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, 2011

	Centerstone of Tennessee, Inc.	Centerstone Endowment Trust	Cumberland Holding Corp	Eliminations	Total
Revenue and other support					
Net client service revenue	$ 44,660,121	$ -0-	$ -0-	$ -0-	$ 44,660,121
Public support	21,506,451	-0-	-0-	-0-	21,506,451
Net assets released from restriction	624,431	-0-	-0-	-0-	624,431
Other	1,002,120	-0-	59,703	-0-	1,061,823
Total revenue and other support	67,793,123	-0-	59,703	-0-	67,852,826
Expenses					
Salary and fringe benefits	37,848,894	89	230	-0-	37,849,213
Telephone	1,264,857	-0-	2,464	-0-	1,267,321
Travel	1,778,526	-0-	3,930	-0-	1,782,456
Drugs and supplies	3,119,571	792	14,935	-0-	3,135,298
Printing and postage	177,895	-0-	70	-0-	177,965
Contracted services	5,923,912	-0-	-0-	-0-	5,923,912
Purchased services	1,459,213	-0-	-0-	-0-	1,459,213
Affiliated management fees	9,054,456	-0-	-0-	-0-	9,054,456
Rents and leases	188,001	-0-	590	-0-	188,591
Utilities	2,227,248	-0-	7,301	-0-	2,234,549
Repairs and maintenance	320,558	-0-	0	-0-	320,558
Depreciation and amortization	1,332,997	-0-	2,604	-0-	1,335,601
Insurance	303,000	-0-	0	-0-	303,000
Bad debt	1,552,048	-0-	0	-0-	1,552,048
Interest	45,663	-0-	14,355	-0-	60,018
Miscellaneous	884,224	1,293	598	-0-	886,115
Total expenses	67,481,063	2,174	47,077	-0-	67,530,314
Operating gain (loss)	$ 312,060	$ (2,174)	$ 12,626	$ -0-	$ 322,512

CENTERSTONE OF TENNESSEE, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011

	Centerstone of Tennessee, Inc.	Centerstone Endowment Trust	Cumberland Holding Corp	Eliminations	Total
Nonoperating revenues (expenses)					
Loss on disposal of equipment	$ (9,720)	$ -0-	$ -0-	$ -0-	$ (9,720)
Contributions, net	28,768	(230,800)	-0-	-0-	(202,032)
Gain on investments	328	-0-	-0-	-0-	328
Net assets released from restriction	352,019	230,800	-0-	-0-	582,819
Interest and dividend income	85	-0-	40	-0-	125
Other nonoperating expense	40,953	-0-	-0-	-0-	40,953
Total nonoperating revenues and expenses	412,433	-0-	40	-0-	412,473
Excess of revenue over (under) expenses	724,493	(2,174)	12,666	-0-	734,985
Other changes in unrestricted net assets					
Equity transfer with Centerstone Foundation	(247,340)	-0-	-0-	-0-	(247,340)
Equity transfer with Centerstone Research Institute	(1,769,083)	-0-	-0-	-0-	(1,769,083)
Change in unrestricted net assets	(1,291,930)	(2,174)	12,666	-0-	(1,281,438)
Changes in temporarily restricted net assets					
Gain on investments	-0-	881,404	-0-	-0-	881,404
Change in value of beneficial interest	2,300,704	166,968	-0-	-0-	2,467,672
Net assets released from restriction	(976,451)	(230,800)	-0-	-0-	(1,207,251)
Interest and dividend income	-0-	112,637	-0-	-0-	112,637
Change in temporarily restricted net assets	1,324,253	930,209	-0-	-0-	2,254,462
Change in net assets	32,323	928,035	12,666	-0-	973,024
Net assets, beginning of year	25,538,341	5,760,504	(106,226)	-0-	31,192,619
Net assets, end of year	$ 25,570,664	$ 6,688,539	$ (93,560)	$ -0-	$ 32,165,643

CENTERSTONE OF TENNESSEE, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010

ASSETS	Centerstone of Tennessee, Inc.	Centerstone Endowment Trust (Restated)	Cumberland Holding Co., Inc	Eliminations	Total (Restated)
Current assets					
Cash and cash equivalents	$ 316,249	$ -0-	$ 38,890	$ -0-	$ 355,139
Restricted cash	-0-	-0-	39,732	-0-	39,732
Unconditional promises to give, current	761,062	-0-	-0-	-0-	761,062
Accounts receivable, net	3,707,754	-0-	-0-	-0-	3,707,754
Other receivables	2,676,437	-0-	-0-	-0-	2,676,437
Due from affiliated entities	7,034,192	-0-	-0-	(368,707)	6,665,485
Prepaid expenses and other current assets	292,820	-0-	0	-0-	292,820
Total current assets	14,788,514	-0-	78,622	(368,707)	14,498,429
Property and equipment, net	21,205,893	-0-	143,778	-0-	21,349,671
Other assets	92,878	-0-	-0-	-0-	92,878
Unconditional promises to give	1,784,636	-0-	-0-	-0-	1,784,636
Beneficial interest	-0-	1,099,689	-0-	-0-	1,099,689
Assets whose use is limited	6,966	4,886,835	-0-	-0-	4,893,801
Total assets	$ 37,878,887	$ 5,986,524	$ 222,400	$ (368,707)	$ 43,719,104
LIABILITIES AND NET ASSETS					
Current liabilities					
Current portion of long term debt	$ 333,415	$ -0-	$ 2,941	$ -0-	$ 336,356
Accounts payable and accrued expenses	2,681,051	-0-	5,006	-0-	2,686,057
Accrued payroll, benefits and taxes	4,573,904	-0-	-0-	-0-	4,573,904
Estimated third party settlements	2,876,750	-0-	-0-	-0-	2,876,750
Due to affiliated entities	-0-	226,020	142,687	(368,707)	-0-
Other current liabilities	-0-	-0-	3,612	-0-	3,612
Total current liabilities	10,465,120	226,020	154,246	(368,707)	10,476,679
Long term debt, net of current portion	1,875,426	-0-	174,380	-0-	2,049,806
Total liabilities	12,340,546	226,020	328,626	(368,707)	12,526,485
Net assets					
Unrestricted	21,158,110	10,004	(106,226)	(300,000)	20,761,888
Temporarily restricted	4,380,231	105,393	-0-	300,000	4,785,624
Permanently restricted	-0-	5,645,107	-0-	-0-	5,645,107
Total net assets	25,538,341	5,760,504	(106,226)	-0-	31,192,619
Total liabilities and net assets	$ 37,878,887	$ 5,986,524	$ 222,400	$ (368,707)	$ 43,719,104

CENTERSTONE OF TENNESSEE, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2010

	Centerstone of Tennessee, Inc.	Centerstone Endowment Trust (Restated)	Cumberland Holding Corp	Eliminations	Total (Restated)
Revenue and other support					
Net client service revenue	$ 37,355,433	$ -0-	$ -0-	$ -0-	$ 37,355,433
Public support	20,598,334	100	-0-	-0-	20,598,434
Net assets released from restriction	901,630	300,000	-0-	(300,000)	901,630
Other	512,447	2,102	35,267	-0-	549,816
Total revenue and other support	59,367,844	302,202	35,267	(300,000)	59,405,313
Expenses					
Salary and fringe benefits	38,150,881	-0-	0	-0-	38,150,881
Telephone	1,586,478	-0-	5,032	-0-	1,591,510
Travel	1,431,994	-0-	5,836	-0-	1,437,830
Drugs and supplies	3,086,491	113	14,667	-0-	3,101,271
Printing and postage	187,807	12	79	-0-	187,898
Contracted services	4,579,288	-0-	-0-	-0-	4,579,288
Purchased services	1,487,859	1,290	1,290	-0-	1,490,439
Affiliated management fees	4,131,470	-0-	-0-	-0-	4,131,470
Rents and leases	191,372	-0-	1,104	-0-	192,476
Utilities	2,367,921	-0-	20,176	-0-	2,388,097
Repairs and maintenance	400,774	-0-	714	-0-	401,488
Depreciation and amortization	1,704,549	-0-	5,899	-0-	1,710,448
Insurance	408,149	-0-	1,608	-0-	409,757
Bad debt	2,674,622	-0-	-0-	-0-	2,674,622
Interest	29,850	-0-	14,799	-0-	44,649
Miscellaneous	602,577	1,647	4,841	-0-	609,065
Total expenses	63,022,082	3,062	76,045	-0-	63,101,189
Operating gain (loss)	$ (3,654,238)	$ 299,140	$ (40,778)	$ (300,000)	$ (3,695,876)

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, 2010

	Centerstone of Tennessee, Inc.	Centerstone Endowment Trust (Restated)	Cumberland Holding Corp	Eliminations	Total (Restated)
Nonoperating revenues (expenses)					
Loss on disposal of equipment	$ (5,727)	$ -0-	$ -0-	$ -0-	$ (5,727)
Contributions	1,216,484	(300,000)	-0-	-0-	916,484
Gain on investments	428	-0-	-0-	-0-	428
Interest and dividend income	1,240	-0-	1,958	-0-	3,198
Other nonoperating expenses	(307,148)	-0-	-0-	-0-	(307,148)
Total nonoperating revenues and expenses	905,277	(300,000)	1,958	-0-	607,235
Excess of revenue over (under) expenses	(2,748,961)	(860)	(38,820)	(300,000)	(3,088,641)
Other changes in unrestricted net assets					
Equity transfer with Centerstone Research Institute	1,769,083	-0-	-0-	-0-	1,769,083
Equity transfer with Advantage Behavioral Health	(3,360,784)	-0-	-0-	-0-	(3,360,784)
Change in unrestricted net assets	(4,340,662)	(860)	(38,820)	(300,000)	(4,680,342)
Changes in temporarily restricted net assets					
Contributions and pledges, net	498,282	2,749	-0-	-0-	501,031
Gain on investments	-0-	575,796	-0-	-0-	575,796
Change in value of beneficial interest	-0-	118,503	-0-	-0-	118,503
Net assets released from restriction	(901,630)	(300,000)	-0-	300,000	(901,630)
Interest and dividend income	-0-	53,517	-0-	-0-	53,517
Change in temporarily restricted net assets	(403,348)	450,565	-0-	300,000	347,217
Change in net assets	(4,744,010)	449,705	(38,820)	-0-	(4,333,125)
Net assets, beginning of year restated	30,282,351	5,310,799	(67,406)	-0-	35,525,744
Net assets, end of year	$ 25,538,341	$ 5,760,504	$ (106,226)	$ -0-	$ 31,192,619

See Report of Independent Auditors on Pages 1 and 2.

CENTERSTONE OF TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor Number	June 30, 2010 (Accrued)	Federal Receipts	Federal Expenditures	June 30, 2011 (Accrued)
U.S. Dept. Of Justice						
TN Dept of Finance and Administration						
Victims of Crime Assistance	16.575	3963	$ (1,907)	$ 1,907	$ -0-	$ -0-
Victims of Crime Assistance	16.575	9697(3963)	-0-	34,386	38,770	(4,384)
Victims of Crime Assistance	16.575	3982	(1,985)	1,985	-0-	-0-
Victims of Crime Assistance	16.575	9696(3982)	-0-	21,345	26,624	(5,279)
JAG - ARRA	16.803	3528	-0-	14,362	17,074	(2,713)
JAG - ARRA	16.803	3517	(3,590)	21,115	18,768	(1,243)
Subtotal - U.S. Dept. of Justice			(7,482)	95,100	101,236	(13,618)
U.S. Dept. Of Labor						
Career Resource Center - ARRA	17.275	GJ-20090-10-60-A-47	(42,868)	1,428,874	1,558,943	(172,936)
Subtotal - U.S. Dept. of Labor			(42,868)	1,428,874	1,558,943	(172,936)
U.S. Dept. of Education						
Clarksville Montgomery County School System						
Fund for the Improvement of Education FY10	84.215	N/A	(22,234)	22,234	-0-	-0-
Subtotal - U.S. Dept. of Education			(22,234)	22,234	-0-	-0-
U.S. Dept. of Health & Human Services						
Methamphetamine Awareness & Prevention	93.243	3H79SP014042	(26,049)	110,576	86,311	(1,785)
Project Self	93.243	5H79T1019313	(50,021)	270,223	262,053	(41,851)
Project Free	93.243	5H79TI020403	(39,823)	387,712	408,328	(60,439)
Project Real	93.243	5U79SP014998	(42,706)	282,310	342,300	(102,696)
Co-Occurring Continuum HIV	93.243	5H79TI018870	(35,794)	133,732	475,470	(377,532)
SAMHSA-Clarksville Homeless Adult Program	93.243	5H79TI16562	(19,861)	64,531	44,670	-0-
Be Aware	93.243	1U79SP017374	-0-	69,267	82,287	(13,020)
Be In Charge	93.297	1TP1AH000030	-0-	267,243	484,469	(217,226)
National Research Service Awards	93.226	GMO-801101	(140,427)	162,719	158,684	(136,392)
Subtotal - U.S. Dept. of Health & Human Services			(354,681)	1,748,311	2,344,571	(950,941)
TN Housing Development Agency						
Tennessee Department of Human Services						
Emergency Shelter Grant	14.231	ESG-10-18	-0-	13,455	14,128	(673)
Subtotal - TN Housing Development Agency			-0-	13,455	14,128	(673)

See Report of Independent Auditors on Pages 1 and 2.

CENTERSTONE OF TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor Number	June 30, 2010 (Accrued)	Federal Receipts	Federal Expenditures	June 30, 2011 (Accrued)
TN Dept. of Mental Health						
Regional Housing Facilitator Program	93.001	7512-GR1028481	(795)	795	-0-	-0-
Regional Housing Facilitator Program	93.958	21353-GR1132269	-0-	74,331	80,822	(6,491)
Building Strong Families	93.087	10245-GR1028832	(63,704)	63,704	-0-	-0-
Building Strong Families	93.087	22061-GR1132731	-0-	289,145	336,097	(46,952)
Muletown Family Network	93.104	12088-GR1029594	(196,989)	196,989	-0-	-0-
Muletown Family Network	93.104	22567-GR1133048	-0-	479,152	559,002	(79,851)
TLC-Juvenile Prevention	93.243	6999-GR0927191-01	(16,939)	16,939	-0-	-0-
Inpatient Targeted Transitional Support	93.958	21067-GR1131925	-0-	56,735	74,909	(18,175)
Regional Intervention Program	93.958	21857-GR1132716	-0-	100,000	100,000	-0-
BASIC	93.958	7226-GR27898	(33,811)	33,811	-0-	-0-
BASIC	93.958	21039-GR1131908	-0-	211,213	253,976	(42,762)
Early Childhood Network	93.958	7221-GR1027904	(11,851)	11,851	-0-	-0-
Early Connection	93.243	24501-GR1134211	-0-	26,978	41,099	(14,121)
Peer Power Program	93.958	7673-GR1028746	(6,613)	6,613	-0-	-0-
Planned Respite Services	93.958	7223-GR1027915	(13,117)	13,117	-0-	-0-
Planned Respite Services	93.958	21070-GR1131928	-0-	53,911	56,267	(2,356)
FEMA	97.032	21351-GR1032189	(61,105)	828,247	863,400	(96,258)
Community Targeted Transitional Support (ILA)	93.958	20800-GR1131813	-0-	93,416	107,277	(13,861)
My Health, My Choice, My Life	93.243	25269-GR1134665	-0-	21,571	46,873	(25,302)
Alcohol & Drug Abuse Services for Be Sharp	93.959	10242-GR1028833	(47,332)	47,332	-0-	-0-
Alcohol & Drug Abuse Services for Be Sharp	93.959	21799-GR1132526	-0-	160,325	201,603	(41,278)
Alcohol & Drug Abuse Services Adolescent Day/Eve Tx	93.959	Z-09-216541-01	(9,386)	9,386	-0-	-0-
Alcohol & Drug Abuse Services Adolescent Services	93.959	22205-GR1132823	-0-	100,996	121,110	(20,115)
Criminal Justice Liaison	93.959	22649-GR1133113	-0-	67,223	79,081	(11,859)
TNWITS ATR *	93.275	DP-09-24371-00	(630)	630	-0-	-0-
TNWITS ATR	93.275	DP-11-30856-00	-0-	465	465	-0-
Subtotal - TN Department of Mental Health			(462,273)	2,964,875	2,921,981	(419,379)
TN Dept. of Children Services						
Responsible Parenting	93.590	GR-10-29379	(784)	10,164	13,341	(3,961)
School Food Program	10.555	N/A	-0-	14,145	14,145	-0-
Subtotal TN Department of Children's Services			(784)	24,309	27,486	(3,961)
Total Federal Awards			$ (890,322)	$ 6,297,159	$ 6,968,345	$ (1,561,508)

See Report of Independent Auditors on Pages 1 and 2.

CENTERSTONE OF TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

CFDA#	Total Expenditures
93.243	$ 1,789,391
17.275	1,558,943
97.032	863,400
93.958	673,251
93.104	559,002
93.297	484,469
93.087	336,097
93.959	401,794
93.226	158,684
16.575	65,394
16.803	35,842
14.231	14,128
93.590	13,341
10.555	14,145
93.275	465
	$ 6,968,345

Basis of Presentation

The accompanying schedule of expenditures of federal awards of Centerstone of Tennessee, Inc. for the year ended June 30, 2011 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.* Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CENTERSTONE OF TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2011

State Grantor/Program Title	Grantor Number	June 30, 2010 (Accrued)	State Receipts	State Expenditures	June 30, 2011 (Accrued)
TN Dept. of Mental Health & Developmental Disabilities					
Homeless Outreach Program	12467-GR1029674	$ (1,973)	$ 1,973	$ -0-	$ -0-
Homeless Outreach Program	20799-GR1131781	-0-	9,201	9,250	(49)
Regional Housing	7512-GR1028481	(4,420)	4,420	-0-	-0-
Regional Intervention Program	7668-GR1028761	(26,747)	26,747	-0-	-0-
Regional Intervention Program	21857-GR1132716	-0-	138,069	191,496	(53,427)
Independent Living Assistance	7660-GR1028743	958	(958)	-0-	-0-
Targeted Transitional Support	7543-GR1028550	(16,516)	16,516	-0-	-0-
Peer Support Drop-In Center and Transportation	7636-GR1028675	(225,058)	225,058	-0-	-0-
Peer Support Drop-In Center and Transportation	21801-GR1132527	-0-	742,336	993,322	(250,986)
Violence and Bullying Prevention Pgm	20063-GR1131252	-0-	81,690	94,130	(12,440)
School Based MH Liaison	7667-GR1028754	(5,334)	5,334	-0-	-0-
School Based MH Liaison	20064-GR1131253	-0-	79,984	91,323	(11,339)
Criminal Justice Liaison	17640-GR1030093	(64,999)	64,999	-0-	-0-
Criminal Justice Liaison	22649-GR1133113	-0-	69,870	96,726	(26,856)
Safety Net	10885-GR1029090-01	(327,582)	327,582	-0-	-0-
Safety Net	GR1131807	-0-	3,811,362	3,998,060	(186,698)
Forensic	GR1028831	(10,800)	10,800	-0-	-0-
Forensic	19776-GR1131118	-0-	56,150	67,700	(11,550)
TNWITS ADAT	DP-11-31047-00	-0-	1,475	1,475	-0-
TNWITS BOPP	DP-11-33018-00	-0-	4,000	4,975	(975)
Permanent Housing Suspender Residential	7636-GR1028675	(48,393)	48,393	-0-	-0-
Permanent Housing HUD	7636-GR1028675	(1,668)	1,668	-0-	-0-
Community Supportive Housing Suspender Residential	20781-GR1131810	-0-	332,740	379,935	(47,195)
Community Supportive Housing HUD	20781-GR1131810	-0-	31,608	32,387	(779)
Walk-In Triage	11219-GR1029376	(26,503)	26,503	-0-	-0-
Mobile Crisis Intervention	20686-GR1131633	-0-	616,270	616,270	-0-
Older Adult	12084-GR1029592	(9,057)	9,057	-0-	-0-
Older Adult	20866-GR1131784	-0-	50,475	62,192	(11,717)
Early Childhood Network	21066-GR1131924	-0-	46,041	67,520	(21,479)

CENTERSTONE OF TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2011

State Grantor/Program Title	Grantor Number	June 30, 2010 (Accrued)	State Receipts	State Expenditures	June 30, 2011 (Accrued)
TN Dept. of Children's Services					
Level II Continuum	P2C000001	362	(362)	-0-	-0-
Level II Continuum	P2C000017	(307,776)	307,776	-0-	-0-
Level II Continuum	P2C000041	-0-	2,263,008	2,512,704	(249,696)
Level III Continuum	P3C000012	(134,750)	129,675	-0-	(5,075)
Level III Continuum	P3C000041	-0-	1,611,380	1,733,210	(121,830)
Level I Fosters Care	PFC000019	(64,917)	64,917	-0-	-0-
Level I Fosters Care	PFC000047	-0-	433,527	475,458	(41,931)
Level III Continuum	P3C000027	(96,674)	96,674	-0-	-0-
Unique Care Agreement	N/A	-0-	-0-	9,548	(9,548)
Performance-Based provider payment	N/A	-0-	107,358	107,358	-0-
Responsible Parenting	GR-10-29379	(1,883)	24,397	32,018	(9,503)
Special Education	2011SPED11004	-0-	2,000	2,000	-0-
Total State Grant Activity		$ (1,373,730)	$ 11,879,712	$ 11,579,057	$ (1,073,074)

Note – The accompanying schedule of expenditures of state financial assistance for the year ended June 30, 2011, includes the state award activity of the Center and is presented on the accrual basis of accounting. The basic financial statement classifications may include other financial activity for reporting purposes. Therefore, some of the amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

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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, 2011, and have issued our report thereon dated December 6, 2011. 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. Our report included an explanatory paragraph stating that the Center is part of an affiliated group of entities that has been consolidated into the reporting entity, Centerstone of America, and that these financial statements include only the financial position, changes in net assets and cash flows of the Center.

Our report included an explanatory paragraph for the prior period adjustment associated with the beneficial interest in the Community Foundation of Middle Tennessee. Adjustments have been made to the 2010 consolidated financial statements to account for the beneficial interest and the related changes in value.

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.

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

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 December 6, 2011.

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

December 6, 2011

CPAs / ADVISORS

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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Center's major federal programs are identified in the summary of the auditor's 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. 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.

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

In our opinion, the Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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 and to test and report on internal control over compliance in accordance with OMB A-133, 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 deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses in internal control over compliance. 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

December 6, 2011

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 _X_ none reported
Significant deficiency(s) identified that are not considered to be material weakness(es)?	___ yes _X_ none reported
Noncompliance material to financial statements noted?	___ yes _X_ no

Federal Awards

Internal controls over major programs:	
Material weakness(es) identified?	___ yes _X_ none reported
Significant deficiency(s) identified that are not considered to be material weakness(es)?	___ yes _X_ none reported
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 _X_ no

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
17.275	Career Resource Center - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors - Employment Training Administration - Department of Labor - (ARRA)
93.087	Building Strong Families - Enhance the Safety of Children Affected by Parental Methamphetamine or Other Substance Abuse - Administration for Children and Families - Department of Health and Human Services
93.297	Be In Charge - Teenage Pregnancy Prevention Program - Office of the Secretary - Department of Health and Human Services
93.959	Be Sharp - Block Grants for Prevention and Treatment of Substance Abuse - Substance Abuse and Mental Health Services Administration (SAMHSA) - Department of Health and Human Services
97.032	FEMA Crisis Counseling (CCP) - Department of Homeland Security

Dollar threshold used to distinguish between type A and B programs:	$300,000
Auditee qualified as low-risk auditee?	___ yes _X_ no

CENTERSTONE OF TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

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

No matters reported

Section III – Federal Award Findings and Questioned Costs:

No matters reported.

Section IV – Summary Schedule of Prior Audit Findings:

No matters reported.