CENTERSTONE

CENTERSTONE OF TENNESSEE, INC.

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2012 AND 2011

CPAs / ADVISORS

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CENTERSTONE OF TENNESSEE, INC.

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

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated statements of financial position of Centerstone of Tennessee, Inc. (the Center) as of June 30, 2012 and 2011 and the related consolidated 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; 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 consolidated financial position of the Center as of June 30, 2012 and 2011, 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 certain equipment was not previously depreciated. The related estimated useful lives expired prior to July 1, 2010. Accordingly, an adjustment has been made to the 2011 consolidated financial statements to reflect the reduction in net book value of equipment and related unrestricted net assets.

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, 2012, 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 consolidated financial statements as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the 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, 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, 2012

CENTERSTONE OF TENNESSEE, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS

	2012	2011 Restated
Current assets		
Cash and cash equivalents	$ 5,570,447	$ 4,185,898
Restricted cash	40,677	40,652
Accounts receivable, net	1,554,063	1,698,456
Other receivables	2,555,339	3,060,160
Due from affiliated entities	119,359	1,289,372
Prepaid expenses and other current assets	122,688	249,156
Total current assets	9,962,573	10,523,694
Property and equipment, net	18,799,990	19,628,353
Beneficial interest	6,926,787	7,271,141
Assets whose use is limited	6,039,581	5,936,471
Total assets	$ 41,728,931	$ 43,359,659

LIABILITIES AND NET ASSETS

Current liabilities		
Current portion of long term debt	$ 3,553	$ 2,353,047
Accounts payable and accrued expenses	1,964,425	3,177,363
Accrued payroll, benefits and taxes	5,058,904	4,803,145
Estimated third party settlements	-0-	1,625,000
Total current liabilities	7,026,882	11,958,555
Long term debt, net of current portion	1,781,570	167,314
Total liabilities	8,808,452	12,125,869
Net assets		
Unrestricted	20,478,316	18,548,597
Temporarily restricted	6,797,056	7,040,086
Permanently restricted	5,645,107	5,645,107
Total net assets	32,920,479	31,233,790
Total liabilities and net assets	$ 41,728,931	$ 43,359,659

See accompanying notes to consolidated financial statements.

CENTERSTONE OF TENNESSEE, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Revenue and other support		
Net client service revenue	$ 46,505,035	$ 44,660,121
Public support	22,917,227	21,506,451
Net assets released from restriction	279,438	624,431
Other	1,502,514	1,061,823
Total revenue and other support	71,204,214	67,852,826
Expenses		
Salary and fringe benefits	40,895,338	37,711,266
Telephone	1,266,073	1,267,321
Travel	2,015,371	1,782,456
Drugs and supplies	2,654,326	2,526,646
Printing and postage	133,124	178,030
Contracted services	5,045,461	6,061,909
Purchased services	1,664,144	1,459,213
Affiliated management fees	9,495,533	9,054,456
Rents and leases	829,739	853,625
Utilities	959,188	1,105,417
Repairs and maintenance	1,283,191	856,945
Depreciation and amortization	956,048	1,335,601
Insurance	278,262	303,000
Bad debt	984,587	1,552,048
Interest	21,581	60,018
Miscellaneous	1,092,053	1,422,363
Total expenses	69,574,019	67,530,314
Operating gain	1,630,195	322,512
Nonoperating revenues (expenses)		
Gain (loss) on disposal of equipment	39,852	(9,720)
Contributions	-0-	(202,032)
Gain on investments	2,011	453
Net assets released from restriction	213,587	582,819
Other nonoperating income	44,074	40,953
Total nonoperating revenues and expenses	299,524	412,473
Excess of revenue over expenses	$ 1,929,719	$ 734,985

See accompanying notes to consolidated financial statements.

CENTERSTONE OF TENNESSEE, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Other changes in unrestricted net assets		
Equity transfer with Centerstone Research Institute	$ -0-	$ (1,769,083)
Equity transfer with Centerstone Foundation	-0-	(247,340)
Change in unrestricted net assets	1,929,719	(1,281,438)
Temporarily restricted net assets		
Gain (loss) on investments	(20,056)	881,404
Change in value of beneficial interest	148,671	2,467,672
Net assets released from restriction	(493,025)	(1,207,251)
Interest and dividend income	121,380	112,637
Change in temporarily restricted net assets	(243,030)	2,254,462
Change in net assets	1,686,689	973,024
Net assets, beginning of year	31,233,790	30,260,766
Net assets, end of year	$ 32,920,479	$ 31,233,790

See accompanying notes to consolidated financial statements.

CENTERSTONE OF TENNESSEE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Operating activities		
Change in net assets	$ 1,686,689	$ 973,024
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	956,048	1,335,601
Bad debt	984,587	1,552,048
(Gain) loss on investments	18,045	(881,732)
(Gain) loss on disposal of assets	(39,852)	9,720
Change in value of beneficial interest	(148,671)	(2,467,672)
Equity transfer with Centerstone Research Institute	-0-	1,769,083
Equity transfer with Centerstone Foundation	-0-	247,340
Changes in operating assets and liabilities		
Accounts receivable	(840,194)	457,250
Other receivables	504,821	(383,723)
Prepaid expenses and other current assets	126,468	47,914
Other assets	-0-	88,628
Beneficial interest	493,025	(3,703,780)
Due to/from affiliate entities	1,170,013	5,376,113
Promises to give	-0-	2,545,698
Accounts payable and accrued expenses	(1,212,938)	527,277
Accrued payroll, benefits and taxes	255,759	190,512
Estimated third party settlements and other liabilities	(1,625,000)	(1,252,604)
Net cash flows from operating activities	2,328,800	6,430,697
Investing activities		
Purchase of property and equipment	(87,833)	(555,856)
Change in assets whose use is limited, net	(121,155)	(160,938)
Net cash flows from investing activities	(208,988)	(716,794)
Financing activities		
Equity transfer with Centerstone Research Institute	-0-	(1,769,083)
Equity transfer with Centerstone Foundation	-0-	(247,340)
Proceeds from the issuance of debt	-0-	475,000
Principal payments on long term debt	(735,238)	(340,801)
Net cash flows from financing activities	(735,238)	(1,882,224)
Net change in cash and cash equivalents	1,384,574	3,831,679
Cash and cash equivalents, beginning of year	4,226,550	394,871
Cash and cash equivalents, end of year	$ 5,611,124	$ 4,226,550
Supplemental cash flows information		
Cash paid for interest	$ 21,581	$ 60,018

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.

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.

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: Centerstone of Indiana, Centerstone Research Institute, 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.

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 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 related assets whose use is limited as of June 30, 2012 and 2011 was $6,024,112 and $5,921,146, respectively. The Trust was initially funded by a gift from the Dede Wallace Foundation.

Performance Indicator and Operating Indicator

The consolidated statements of activities and changes in net assets include a performance indicator, excess of revenue over expenses. Changes in unrestricted net assets which would be excluded from 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 gain (loss). Certain nonoperating items are excluded from the operating indicator including investment gain (loss), contributions from donors and related parties, net assets released from restriction, gains and losses on investments, gains (losses) on disposal of equipment, and other nonoperating income amounts.

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 $265,254 and $286,086 for June 30, 2012 and 2011, 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, 2012 and 2011 were $1,605,936 and $2,340,296, 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 $-0- and $1,625,000 as of June 30, 2012 and 2011, 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, 2012 and 2011 were approximately $145,000 and $67,000 respectively.

Of the Center's total operating expenses reported (approximately $69,600,000 and $67,500,000 for the years ended June 30, 2012 and 2011, respectively), an estimated $114,000 and $52,000 arose from providing services to charity patients during the years ended June 30, 2012 and 2011, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Center's total expenses (less bad debt expense) divided by gross patient service revenue.

Federal and State 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. The exemption is on all income except unrelated business income as noted under Section 511 of the Internal Revenue Code. Internal Revenue Code Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose.

As such, the Center and subsidiaries are generally exempt from federal and state income taxes. However, the Center and subsidiaries are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Centerstone of Tennessee, Inc., Centerstone Endowment Trust, and Cumberland Holding Corporation filed their federal and state income tax returns for period through June 30, 2011.

These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

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, 2012 and 2011, 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.

Electronic Health Records (EHR) Incentive Payments

The Center receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Center must meet "meaningful use" criteria that become more stringent over time. The Center periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30). The related EHR incentive payments are paid out over a four-year transition schedule and are based upon data that is captured in the Center's cost reports.

The Center recognizes EHR incentive payments as grant income when there is reasonable assurance that the Center will comply with the conditions of the meaningful use objectives and any other specific requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2012 and 2011, the Center recognized approximately $935,000 and $-0-, respectively, in EHR incentive payments using the ratable recognition method. Under the ratable recognition method, the Center recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included in other revenue in the statement of activities and changes in net assets. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Center as prescribed by the programs, subject to future audits and may be subject to repayment upon a determination of noncompliance.

Reclassification

Certain amounts in the 2011 financial statements have been reclassified herein to conform to the current year presentation.

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, 2012.

2. AFFILIATED ENTITY TRANSACTIONS

The Center entered certain working capital transactions, administrative and general transactions, and property transfers with its Parent and Sister corporations. The Center has recorded a related party (payable)/receivable in the amount of $119,360 and $1,289,372 as of June 30, 2012 and 2011, respectively. For the years ended June 30, 2012 and 2011, the Center incurred malpractice and liability insurance expense in the approximate amount of $280,000 and $305,000, respectively, which was paid by the Parent and will be reimbursed through due to accounts. In addition for the years ended June 30, 2012 and 2011, the Center incurred affiliated management fees in the amount of $9,495,533 and $9,054,456, 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.

3. PRIOR PERIOD ADJUSTMENT

Due to multiple fixed asset system conversions, certain information technology equipment was not previously depreciated. The related estimated useful lives expired prior to July 1, 2010. Accordingly, a correcting adjustment has been made to the 2011 consolidated financial statements to reflect the reduction in net book value of equipment and related unrestricted net assets.

Consolidated statements of financial position	Originally Reported	Adjustment	Restated
Property and equipment, net - At June 30, 2010	$ 21,349,671	$ (931,853)	$ 20,417,818
Property and equipment, net - At June 30, 2011	$ 20,560,206	$ (931,853)	$ 19,628,353
Net assets - unrestricted - At July 1, 2010	$ 20,761,888	$ (931,853)	$ 19,830,035
Net assets - total - At July 1, 2010	$ 31,192,619	$ (931,853)	$ 30,260,766
Net assets - unrestricted - At July 1, 2011	$ 19,480,450	$ (931,853)	$ 18,548,597
Net assets - total - At July 1, 2011	$ 32,165,643	$ (931,853)	$ 31,233,790

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, 2012 and June 30, 2011.

The following schedule summarizes the investment expenses and earnings and its classification in the Statement of Activities and Changes in Net Assets.

	2012	2011
Beneficial interest in Community Foundation of Middle Tennessee, beginning of year	$ 1,266,657	$ 1,099,689
Investment expenses	(8,512)	(7,827)
Investment gain/(loss)	(20,701)	174,795
Grants paid out	(61,200)	-0-
Beneficial interest in Community Foundation of Middle Tennessee, end of year	$ 1,176,244	$ 1,266,657

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. (the Foundation). 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, 2012 and 2011, the Foundation reflects the agency liability related to the Center in the approximate amounts of $3,452,000 and $3,704,000, respectively. As of June 30, 2012 and 2011, the Foundation recorded related net assets of approximately $2,410,000 and $2,301,000, respectively. The beneficial interest is reported at fair value for the years ended June 30, 2012 and 2011.

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

	2012	2011
Beneficial interest in Centerstone Foundation, Inc., beginning of year	$ 6,004,484	$ -0-
Initial funds transferred	-0-	4,680,231
Funds received	239,084	2,300,704
Funds returned	(493,025)	(976,451)
Beneficial interest in Centerstone Foundation, Inc., end of year	$ 5,750,543	$ 6,004,484

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, 2012 and 2011 is set forth in the following table.

	2012	2011
Cash and cash equivalents	$ 55,165	$ 77,059
Mutual funds and equities	5,984,416	5,859,412
	$ 6,039,581	$ 5,936,471

Investment income (loss) consists of the following for 2012 and 2011:

	2012	2011
Interest and dividend income	$ 121,380	$ 112,637
Unrealized gain on investments	319	246,349
Realized gain on investments	(18,364)	635,508
	$ 103,335	$ 994,494

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2012, and 2011.

Level 1 Fair Value Measurements

Inputs to the valuation methodology are quoted prices available in the active markets for identical investments as of the reporting date. Mutual funds are value at the quoted net asset value of shares held by the plan at year end.

Level 2 Fair Value Measurements

Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date and fair value can be determined through the use of models or other valuation methodologies. The Plan does not hold any level 2 investments.

Level 3 Fair Value Measurements

Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

The guaranteed investment contract is valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Center's fair value measurement at June 30, 2012 and 2011:

	June 30, 2012			
Assets	Total	Level 1	Level 2	Level 3
Assets limited as to use				
Equity securities				
Domestic	$ 1,448,423	$ 1,448,423	$ -0-	$ -0-
Foreign common & American Depository Receipts (ADR)	319,140	319,140	-0-	-0-
Real estate investment trust	70,640	70,640	-0-	-0-
Exchange traded funds	536,154	536,154	-0-	-0-
Mutual funds				
Blend	859,420	859,420	-0-	-0-
Growth	906,900	906,900	-0-	-0-
Fixed income	1,352,004	1,352,004	-0-	-0-
High yield	290,475	290,475	-0-	-0-
Proprietary Funds				
Fixed income	201,260	201,260	-0-	-0-
	5,984,416	$ 5,984,416	$ -0-	$ -0-
Cash and cash equivalents	55,165			
Total	$ 6,039,581			
Beneficial interest	$ 6,926,787	$ -0-	$ -0-	$ 6,926,787

	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	$ -0-	$ -0-	$ 7,271,141

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: The fair value of the Center's debt approximated its carrying value based upon the variable nature of its primary debt.

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2012	2011
Land	$ 2,957,557	$ 2,957,557
Buildings and improvements	25,896,108	27,321,942
Furnishings, equipment and vehicles	8,747,613	11,893,388
Construction in progress	1,752,971	857,866
	39,354,249	43,030,753
Accumulated depreciation and amortization	(20,554,259)	(23,402,400)
	$ 18,799,990	$ 19,628,353

Remaining construction commitments approximated $4,650,000 at June 30, 2012.

8. LONG TERM DEBT

Long term debt consists of the following:

	2012	2011
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 with a net book value of $99,383	$ 166,373	$ 170,820
Note payable, variable interest rate, which was 2.24% at June 30, 2012, monthly principal payments of $8,750, plus interest, with a balloon payoff of $1,618,750 in July 2012, collateralized by building in Shelbyville, TN with a net book value of $2,310,869, subsequently refinanced with additional financing	1,618,750	1,715,000
Note payable, fixed interest rate, paid in full during 2012	-0-	159,541
Note payable, variable interest rate, paid in full during 2012	-0-	475,000
	1,785,123	2,520,361
Current portion	(3,553)	(2,353,047)
Total long term debt	$ 1,781,570	$ 167,314

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

2013	$ 3,553
2014	1,622,913
2015	4,525
2016	4,919
2017	5,347
Thereafter	143,866
	$ 1,785,123

Subsequent to year end, on September 24, 2012, the Center issued a $3,500,000 note payable with a fixed interest rate of 3.35%. On March 15, 2014, a principal payment in the amount necessary to reduce the outstanding principal balance to $2,500,000 shall be due and payable. Beginning March 16, 2014, a payment in the amount required to amortize the principal balance hereof as March 15, 2014 over a period of twenty years shall be due and payable monthly on the first day of each succeeding month until the maturity date. A portion of the proceeds of this note payable was used to extinguish the original $2,100,000 note payable entered into May 3, 2007, of which, $1,618,750 was due as of June 30, 2012.

9. NET ASSETS

The beneficial interest in Community Foundation of Middle Tennessee is restricted as to time. The remaining temporarily restricted net assets are available for purposes as disclosed below at June 30, 2012 and 2011:

	2012	2011
Dede Wallace Campus	$ 5,880,172	$ 5,781,201
Unmet Needs	16,238	16,238
Research	724,402	975,990
Beneficial Interest in Community Foundation of Middle Tennessee	176,244	266,657
	$ 6,797,056	$ 7,040,086

Permanently restricted net assets consist of the following as of June 30, 2012 and 2011:

	2012	2011
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

10. 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, 2012 and 2011:

	2012	2011
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	982,757	1,302,259
Total endowment funds	$ 6,627,864	$ 6,947,366

The Center incurred the following changes in endowment net assets for the year ended June 30, 2012 and 2011:

	Permanently restricted		Temporarily restricted	
	2012	2011	2012	2011
Endowment and Beneficial Interest net assets, beginning of year	$ 5,645,107	$ 5,645,107	$ 1,302,259	$ 418,486
Net investment income and other changes	-0-	-0-	(319,502)	883,773
Endowment and Beneficial Interest net assets, end of year	$ 5,645,107	$ 5,645,107	$ 982,757	$ 1,302,259

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.

11. FUNCTIONAL EXPENSES

The Center provides behavioral healthcare services to residents within its geographic location. Expenses related to providing these services for 2012 and 2011 are as follows:

	2012	2011
Behavioral health care services	$ 60,056,905	$ 58,415,840
General and administrative	9,517,114	9,114,474
	$ 69,574,019	$ 67,530,314

12. 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 Sponsor contributes up to 3% of a participant’s eligible compensation determined by the employee deferral percentage. During 2012 and 2011, employer pension contributions were $469,454 and $430,673, respectively.

13. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Center has several operating leases, for certain operating facilities and equipment through 2017. Total rent expense was and $829,739 and $853,625 for the year ended June 30, 2012 and 2011, respectively.

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

2013	$ 79,894
2014	31,511
2015	31,511
2016	31,511
2017	5,252
Total minimum lease payments	$ 179,679

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, 2012 and 2011 aggregated $3,855,229 and $3,610,955, 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, 2012 and 2011 was $3,000,114 and $2,783,592, 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 is 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 with a term extending through August 2013. Any draws bear interest at 3.35%. There were no borrowings at June 30, 2012 and 2011. 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.

14. NET SERVICE REVENUE

The Center has agreements with third-party payors including Medicare, Medicaid and the State of Tennessee and other commercial insurance carriers that provide for payments to the Center at amounts different from its established rates. The following is a schedule of gross service charges by category, charity care, subsidized and contractual adjustments incurred during 2012 and 2011:

	2012	2011
Gross charges	64,195,022	63,387,024
Less deductions		
Charity care	144,635	66,754
Contractual adjustments	17,545,352	18,660,149
Net patient service revenue	$ 46,505,035	$ 44,660,121

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, net of certain contractual allowances, and net revenues from clients and third-party payors were as follows:

	Receivables		Revenue	
	2012	2011	2012	2011
Medicare	5%	5%	7%	6%
Medicaid	3%	3%	1%	1%
TennCare	74%	66%	86%	87%
Self-pay	11%	10%	3%	3%
Other third-party payors	7%	16%	3%	3%
	100%	100%	100%	100%

SUPPLEMENTARY INFORMATION

CENTERSTONE OF TENNESSEE, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

	Centerstone of Tennessee, Inc.	Centerstone Endowment Trust	Cumberland Holding Co., Inc	Eliminations	Total
ASSETS					
Current assets					
Cash and cash equivalents	$ 5,512,631	$ -0-	$ 57,816	$ -0-	$ 5,570,447
Restricted cash	-0-	-0-	40,677	-0-	40,677
Accounts receivable, net	1,554,063	-0-	-0-	-0-	1,554,063
Other receivables	2,555,339	-0-	-0-	-0-	2,555,339
Due from affiliated entities	1,003,550	-0-	-0-	(884,191)	119,359
Prepaid expenses and other current assets	122,688	-0-	-0-	-0-	122,688
Total current assets	10,748,271	-0-	98,493	(884,191)	9,962,573
Property and equipment, net	18,700,580	-0-	99,410	-0-	18,799,990
Beneficial interest	5,750,543	1,176,244	-0-	-0-	6,926,787
Assets whose use is limited	15,469	6,024,112	-0-	-0-	6,039,581
Total assets	$ 35,214,863	$ 7,200,356	$ 197,903	$ (884,191)	$ 41,728,931
LIABILITIES AND NET ASSETS					
Current liabilities					
Current portion of long term debt	$ -0-	$ -0-	$ 3,553	$ -0-	$ 3,553
Accounts payable and accrued expenses	1,963,966	-0-	459	-0-	1,964,425
Accrued payroll, benefits and taxes	5,058,904	-0-	-0-	-0-	5,058,904
Due to affiliated entities	-0-	740,906	143,285	(884,191)	-0-
Total current liabilities	7,022,870	740,906	147,297	(884,191)	7,026,882
Long term debt, net of current portion	1,618,750	-0-	162,820	-0-	1,781,570
Total liabilities	8,641,620	740,906	310,117	(884,191)	8,808,452
Net assets					
Unrestricted	21,122,700	7,830	(112,214)	(540,000)	20,478,316
Temporarily restricted	5,450,543	806,513	-0-	540,000	6,797,056
Permanently restricted	-0-	5,645,107	-0-	-0-	5,645,107
Total net assets	26,573,243	6,459,450	(112,214)	-0-	32,920,479
Total liabilities and net assets	$ 35,214,863	$ 7,200,356	$ 197,903	$ (884,191)	$ 41,728,931

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, 2012

	Centerstone of Tennessee, Inc.	Centerstone Endowment Trust	Cumberland Holding Corp	Eliminations	Total
Revenue and other support					
Net client service revenue	$ 46,505,035	$ -0-	$ -0-	$ -0-	$ 46,505,035
Public support	22,917,227	-0-	-0-	-0-	22,917,227
Net assets released from restriction	279,438	-0-	-0-	-0-	279,438
Other	1,447,809	-0-	54,705	-0-	1,502,514
Total revenue and other support	71,149,509	-0-	54,705	-0-	71,204,214
Expenses					
Salary and fringe benefits	40,895,338	-0-	-0-	-0-	40,895,338
Telephone	1,264,106	-0-	1,967	-0-	1,266,073
Travel	2,012,964	-0-	2,407	-0-	2,015,371
Drugs and supplies	2,649,270	-0-	5,056	-0-	2,654,326
Printing and postage	133,036	-0-	88	-0-	133,124
Contracted services	5,045,386	-0-	75	-0-	5,045,461
Purchased services	1,664,144	-0-	-0-	-0-	1,664,144
Affiliated management fees	9,495,533	-0-	-0-	-0-	9,495,533
Rents and leases	828,986	-0-	753	-0-	829,739
Utilities	948,908	-0-	10,280	-0-	959,188
Repairs and maintenance	1,269,020	-0-	14,171	-0-	1,283,191
Depreciation and amortization	956,048	-0-	-0-	-0-	956,048
Insurance	277,232	-0-	1,030	-0-	278,262
Bad debt	984,587	-0-	-0-	-0-	984,587
Interest	7,574	-0-	14,007	-0-	21,581
Miscellaneous	1,066,659	-0-	25,394	-0-	1,092,053
Total expenses	69,498,791	-0-	75,228	-0-	69,574,019
Operating gain (loss)	$ 1,650,718	$ -0-	$ (20,523)	$ -0-	$ 1,630,195

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, 2012

	Centerstone of Tennessee, Inc.	Centerstone Endowment Trust	Cumberland Holding Corp	Eliminations	Total
Nonoperating revenues (expenses)					
Gain on disposal of equipment	$ 39,852	$ -0-	$ -0-	$ -0-	$ 39,852
Contributions	240,000	(240,000)	-0-	-0-	-0-
Investment income	142	-0-	1,869	-0-	2,011
Net assets released from restriction	213,587	240,000	-0-	(240,000)	213,587
Other nonoperating income	44,074	-0-	-0-	-0-	44,074
Total nonoperating revenues and expenses	537,655	-0-	1,869	(240,000)	299,524
Excess of revenue over (under) expenses /change in unrestricted net assets	2,188,373	-0-	(18,654)	(240,000)	1,929,719
Changes in temporarily restricted net assets					
Gain on investments	-0-	(20,056)	-0-	-0-	(20,056)
Change in value of beneficial interest	239,084	(90,413)	-0-	-0-	148,671
Net assets released from restriction	(493,025)	(240,000)	-0-	240,000	(493,025)
Interest and dividend income	-0-	121,380	-0-	-0-	121,380
Change in temporarily restricted net assets	(253,941)	(229,089)	-0-	240,000	(243,030)
Change in net assets	1,934,432	(229,089)	(18,654)	-0-	1,686,689
Net assets, beginning of year	24,638,811	6,688,539	(93,560)	-0-	31,233,790
Net assets, end of year	$ 26,573,243	$ 6,459,450	$ (112,214)	$ -0-	$ 32,920,479

See Report of Independent Auditors on Pages 1 and 2.

CENTERSTONE OF TENNESSEE, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

	Centerstone of Tennessee, Inc.	Centerstone Endowment Trust	Cumberland Holding Co., Inc	Eliminations	Total (Restated)
ASSETS					
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	249,156	-0-	0	-0-	249,156
Total current assets	11,085,432	-0-	89,635	(651,373)	10,523,694
Property and equipment, net	19,484,575	-0-	143,778	-0-	19,628,353
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	$ 36,589,816	$ 7,187,803	$ 233,413	$ (651,373)	$ 43,359,659
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	3,176,076	-0-	1,287	-0-	3,177,363
Accrued payroll, benefits and taxes	4,800,388	-0-	2,757	-0-	4,803,145
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-
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	18,934,327	7,830	(93,560)	(300,000)	18,548,597
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	24,638,811	6,688,539	(93,560)	-0-	31,233,790
Total liabilities and net assets	$ 36,589,816	$ 7,187,803	$ 233,413	$ (651,373)	$ 43,359,659

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	37,710,947	89	230	-0-	37,711,266
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	2,510,919	792	14,935	-0-	2,526,646
Printing and postage	177,960	-0-	70	-0-	178,030
Contracted services	6,061,909	-0-	-0-	-0-	6,061,909
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	853,035	-0-	590	-0-	853,625
Utilities	1,098,116	-0-	7,301	-0-	1,105,417
Repairs and maintenance	856,945	-0-	-0-	-0-	856,945
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	1,420,472	1,293	598	-0-	1,422,363
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

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
Nonoperating revenues (expenses)					
Loss on disposal of equipment	$ (9,720)	$ -0-	$ -0-	$ -0-	$ (9,720)
Contributions	28,768	(230,800)	-0-	-0-	(202,032)
Investment income	413	-0-	40	-0-	453
Net assets released from restriction	352,019	230,800	-0-	-0-	582,819
Other nonoperating expenses	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	24,606,488	5,760,504	(106,226)	-0-	30,260,766
Net assets, end of year	$ 24,638,811	$ 6,688,539	$ (93,560)	$ -0-	$ 31,233,790

See Report of Independent Auditors on Pages 1 and 2.

CENTERSTONE OF TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor Number	June 30, 2011 (Accrued)	Federal Receipts	Federal Expenditures	June 30, 2012 (Accrued)
U.S. Dept. Of Justice						
TN Dept of Finance and Administration						
Victims of Crime Assistance	16.575	9697(3963)	$ (4,384)	$ 4,384	$ -0-	$ -0-
Victims of Crime Assistance	16.575	3982(9696)	(5,279)	43,775	41,909	(3,413)
JAG - ARRA	16.803	3528	(2,713)	2,713	-0-	-0-
JAG - ARRA	16.803	3517	(1,243)	1,243	-0-	-0-
Subtotal - U.S. Dept. of Justice			(13,619)	52,115	41,909	(3,413)
Bureau of Justice Assistance						
Franklin County FCCR	16.812	none	-0-	31,220	41,988	(10,768)
Subtotal - Bureau of Justice Assistance			-0-	31,220	41,988	(10,768)
U.S. Dept. Of Labor						
Career Resource Center - ARRA	17.275	GJ-20090-10-60-A-47	(172,936)	1,938,778	1,610,336	155,506
Subtotal - U.S. Dept. of Labor			(172,936)	1,938,778	1,610,336	155,506
U.S. Dept. of Health & Human Services						
Methamphetamine Awareness & Prevention	93.243	1H79SP014042	(1,785)	1,785	-0-	-0-
Project Self	93.243	5H79T1019313	(41,851)	111,952	70,101	-0-
Project Free	93.243	1H79TI020403	(60,439)	164,617	104,178	-0-
Project Real	93.243	1U79SP014998	(102,696)	373,673	296,928	(25,951)
Co-Occuring Continuum HIV	93.243	1H79TI018870	(377,532)	802,598	462,311	(37,245)
Be Aware (Be Healthy)	93.243	1U79SP017374	(13,021)	347,422	360,653	(26,252)
Be In Charge	93.297	1TP1AH000030	(217,226)	1,272,338	1,135,832	(80,720)
National Research Service Awards	93.226	GMO-801101	(136,392)	136,392	-0-	-0-
TEAM Recovery	93.243	Sub-award	-0-	141,980	239,692	(97,712)
Subtotal - U.S. Dept. of Health & Human Services			(950,942)	3,352,757	2,669,695	(267,880)
Department of Veteran's Affairs						
Supportive Services for Veterans Families Pgm	64.033	none	-0-	668,415	714,785	(46,370)
Subtotal - U.S. Dept. of Housing and Urban Development			-0-	668,415	714,785	(46,370)
Tennessee Department of Human Services						
Emergency Shelter Grant	14.231	ESG-10-18	(673)	673	-0-	-0-
Emergency Shelter Grant	14.231	ESG-10-18	-0-	13,969	14,233	(264)
HOME	14.239	HM-07-09	-0-	265,632	265,632	-0-
Subtotal - Tennessee Department of Human Services			(673)	280,274	279,865	(264)

See Report of Independent Auditors on Pages 1 and 2.

CENTERSTONE OF TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor Number	June 30, 2011 (Accrued)	Federal Receipts	Federal Expenditures	June 30, 2012 (Accrued)
TN Dept. of Mental Health						
Regional Housing Facilitator Program	93.958	21353-GR1132269	(6,491)	6,491	-0-	-0-
Building Strong Families	93.087	22061-GR1132731	(46,952)	46,952	-0-	-0-
Building Strong Families	93.087	27153-GR1235828	-0-	230,106	296,016	(65,910)
Muletown Family Network	93.104	22567-GR1133048	(79,851)	79,851	-0-	-0-
Muletown Family Network	93.104	27783-GR1236366	-0-	120,544	120,544	-0-
Inpatient Targeted Transitional Support	93.958	21067-GR1131925	(18,175)	18,175	-0-	-0-
BASIC	93.958	21039-GR1131908	(42,762)	42,762	-0-	-0-
BASIC	93.958	27281-GR1236067	-0-	228,962	263,887	(34,925)
Early Connection	93.243	24501-GR1134211	(14,121)	14,121	-0-	-0-
Early Connection 07-09	93.243	27785-GR1236367	-0-	35,691	35,691	-0-
Early Connection 10-06	93.243	29548-GR1237571	-0-	61,321	103,233	(41,912)
Planned Respite Services	93.958	21070-GR1131928	(2,356)	2,356	-0-	-0-
Planned Respite Services	93.958	27012-GR1235868	-0-	49,106	62,055	(12,949)
Peer Support Drop-In Center and Transportation	93.958	27792-GR1236371	-0-	767,032	928,094	(161,062)
Peer Support Drop-In Center and Transportation	93.243	27792-GR1236371	-0-	3,881	3,881	-0-
FEMA	97.032	21351-GR1032189	(96,258)	176,930	80,672	-0-
Community Targeted Transitional Support (ILA)	93.958	20800-GR1131813	(13,861)	13,861	-0-	-0-
Community Targeted Transitional Support (ILA)	93.958	26870-GR1235656	-0-	97,952	106,942	(8,990)
My Health, My Choice, My Life	93.243	25269-GR1134665	(25,302)	25,302	-0-	-0-
My Health, My Choice, My Life	93.243	27446-GR1236043	-0-	113,555	133,802	(20,247)
Alcohol & Drug Abuse Services for Be Sharp	93.959	21799-GR1132526	(41,278)	41,278	-0-	-0-
Alcohol & Drug Abuse Services for Be Sharp	93.959	27528-GR1236187	-0-	191,430	215,678	(24,248)
Alcohol & Drug Abuse Services Adolescent Services	93.959	22205-GR1132823	(20,115)	20,115	-0-	-0-
Alcohol & Drug Abuse Services Adolescent Services	93.959	26897-GR1235640	-0-	102,157	123,062	(20,905)
Criminal Justice Liaison	93.959	22649-GR1133113	(11,859)	11,859	-0-	-0-
Criminal Justice Liaison	93.959	22649-GR1236510	-0-	64,109	76,636	(12,527)
The Screening, Brief Intervention, Referral for Treatment	93.342	30079-GR1237770	-0-	7,280	19,297	(12,017)
Subtotal - TN Department of Mental Health			(419,381)	2,573,179	2,569,490	(415,692)
TN Dept. of Health						
Healthy Families/Home Visiting Program	93.505	27101-GR1235753	-0-	149,131	190,688	(41,557)
Subtotal TN Department of Children's Services			-0-	149,131	190,688	(41,557)
TN Dept. of Children Services						
Responsible Parenting	93.590	GR-10-29379	(3,961)	12,435	13,022	(4,548)
School Food Program	14.231	N/A	-0-	25,338	25,338	-0-
Subtotal TN Department of Children's Services			(3,961)	37,773	38,360	(4,548)
Total Federal Awards			$ (1,561,512)	$ 9,083,642	$ 8,157,116	$ (634,986)

See Report of Independent Auditors on Pages 1 and 2.

CENTERSTONE OF TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

The schedule below is a summation of awards listed by Catalog of Federal Domestic Assistance (CFDA) number.

CFDA#	Total Expenditures
14.231	$ 39,571
14.239	265,632
16.575	41,909
16.812	41,988
17.275	1,610,336
64.033	714,785
93.087	296,016
93.104	120,544
93.243	1,810,470
93.297	1,135,832
93.342	19,297
93.505	190,688
93.590	13,022
93.958	1,360,978
93.959	415,376
97.032	80,672
	$ 8,157,116

Basis of Presentation

The accompanying schedule of expenditures of federal awards of Centerstone of Tennessee, Inc. for the year ended June 30, 2012 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.

See Report of Independent Auditors on Pages 1 and 2.

CENTERSTONE OF TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2012

State Grantor/Program Title	Grantor Number	June 30, 2011 (Accrued)	State Receipts	State Expenditures	June 30, 2012 (Accrued)
TN Dept. of Mental Health & Developmental Disabilities					
Homeless Outreach Program	20799-GR1131781	$ (49)	$ 49	$ -0-	$ -0-
Homeless Outreach Program	27154-GR1235829	-0-	7,184	7,785	(601)
Regional Intervention Program	21857-GR1132716	(53,427)	53,427	-0-	-0-
Regional Intervention Program	27280-GR1236068	-0-	246,198	291,162	(44,964)
Inpatient Targeted Transitional Support	26871-GR1235655	-0-	61,985	74,436	(12,451)
Peer Support Drop-In Center and Transportation	21801-GR1132527	(250,986)	250,986	-0-	-0-
Violence and Bullying Prevention Pgm	20063-GR1131252	(12,440)	12,440	-0-	-0-
Violence and Bullying Prevention Pgm	27282-GR1236066	-0-	85,040	98,388	(13,348)
School Based MH Liaison	20064-GR1131253	(11,339)	11,339	-0-	-0-
School Based MH Liaison	27793-GR1236372	-0-	79,958	100,000	(20,042)
Criminal Justice Liason	22649-GR1133113	(26,856)	26,856	-0-	-0-
Criminal Justice Liason	22649-GR1236510	-0-	71,544	92,836	(21,292)
Safety Net	GR1131807	(186,698)	186,698	-0-	-0-
Safety Net	27193-GR1235797	-0-	4,373,859	4,373,859	-0-
Forensic	19776-GR113118	(14,050)	14,050	-0-	-0-
Forensic	25087-GR1234537	-0-	115,200	127,600	(12,400)
TNWITS BOPP	DP-11-33018-00	(975)	975	-0-	-0-
TNWITS BOPP	26098	-0-	2,727	2,727	-0-
Community Supportive Housing Suspender Residential	20781-GR1131810	(47,195)	47,195	-0-	-0-
Community Supportive Housing Suspender Residential	27467-GR1236038	-0-	336,405	379,935	(43,530)
Community Supportive Housing HUD	20781-GR1131810	(779)	779	-0-	-0-
Community Supportive Housing HUD	27467-GR1236038	-0-	32,450	32,450	-0-
Mobile Crisis Intervention	GR1235418	-0-	620,233	620,233	-0-
Older Adult	20866-GR1131784	(11,717)	11,717	-0-	-0-
Older Adult	27155-GR1235830	-0-	44,157	55,513	(11,356)
Early Childhood Network	21066-GR1131924	(21,479)	21,479	-0-	-0-
Regional Housing Facilitator Program	27468-GR1236037	-0-	68,179	81,820	(13,641)

See Report of Independent Auditors on Pages 1 and 2.

CENTERSTONE OF TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2012

State Grantor/Program Title	Grantor Number	June 30, 2011 (Accrued)	State Receipts	State Expenditures	June 30, 2012 (Accrued)
TN Dept. of Children's Services					
Level II Continuum	P2C000041	(249,696)	247,008	(2,688)	-0-
Level III Continuum	P3C000012	(5,075)	5,250	-0-	175
Level III Continuum	P3C000041	(121,830)	121,365	(465)	-0-
Level I Fosters Care	PFC000047	(41,931)	41,833	(97)	(1)
Uniqui Care Agreement	N/A	(9,548)	9,548	-	-0-
DCS Childrens Residential Pgm	PBC000004	-0-	4,141,629	4,729,323	(587,694)
Performance-Based Provider payment	N/A	-0-	356,806	356,806	-0-
Responsible Parenting	GR-10-29379	(9,503)	29,844	31,258	(10,917)
Special Education	2012SPED12004	-0-	2,000	2,000	-0-
Total State Grant Activity		$ (1,075,573)	$ 11,738,392	$ 11,454,881	$ (792,062)

Note – The accompanying schedule of expenditures of state financial assistance for the year ended June 30, 2012, 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.

CPAS / ADVISORS

blue

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

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

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

We have audited the consolidated financial statements of Centerstone of Tennessee, Inc., (the Center), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 6, 2012. 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 certain equipment not being previously depreciated while the related estimated useful lives expired prior to July 1, 2010. Accordingly, an adjustment has been made to the 2011 consolidated financial statements to reflect the reduction in net book value of equipment and related unrestricted net assets.

Internal Control Over Financial Reporting

Management of the Center is responsible for establishing and maintaining effective 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.

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. . We consider the deficiency, 2012-1, in the accompanying schedule of findings and questioned costs to be a material weakness.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and question costs, we identified a deficiency in internal control over financial reporting that we consider to be material weakness.

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, 2012.

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, 2012

CPAS / ADVISORS

blue

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

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS 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, 2012. 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, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the 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, 2012.

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

Internal Control Over Compliance

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 over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Blue & Co., LLC

December 6, 2012

CENTERSTONE OF TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Section I -- Summary of Audit Results:

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	X yes ___ 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)
64.033	Department of Veterans Affairs - VA Health Administration Center - Supportive Services for Veteran Families - Veterans' Mental Health and Other Care Improvements Act of 2008
93.243	Department of Health and Human Services - Substance Abuse and Mental Health Services Projects of Regional and National Significance

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

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

12-1 Depreciation on Fixed Assets

Condition and Criteria – Management experienced multiple fixed asset system conversions during a period from 2002 through 2008, as well as subsequent significant organizational change and growth due to mergers, information technology changes, and organizational restructuring. There were associated fixed asset transfers between related entities as well. During 2012, management performed a detailed reconciliation between the fixed asset system and the general ledger noting that certain equipment, primarily information technology, was not previously depreciated. The related estimated useful lives expired prior to July 1, 2010.

Cause and Effect – Certain fixed assets, primarily information technology equipment, were not previously depreciated. Accordingly, an adjustment has been made to the 2011 consolidated financial statements to reflect the reduction in net book value of equipment and related unrestricted net assets in the amount of $931,853.

Recommendation – We understand management experienced multiple fixed asset conversions as well as significant organizational change and growth due to mergers, information technology changes, and organizational restructuring. We noted that there were associated fixed asset transfers between related entities as well. However, we recommend a monthly reconciliation should be maintained between the general ledger and the subsidiary ledger with an associated review and approval. The reconciliation should include the fixed asset balance, accumulated depreciation, and depreciation expense. In addition management should periodically review the completeness and accuracy of the related depreciation and the associated fixed asset system inputs and results. These procedures should be formally documented within the accounting policies and procedures.

Response – Management agrees with the recommendation and has instituted corrective action incorporating the aforementioned recommendation.

Section III – Federal Award Findings and Questioned Costs:

No matters reported.

Section IV – Summary Schedule of Prior Audit Findings:

No matters reported.