

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

YEAR ENDED JUNE 30, 2007

and

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC  
COMBINED FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
Year Ended June 30, 2007

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements:	
Combined Statement of Financial Position	3
Combined Statement of Activities	4
Combined Statement of Functional Expenses	5
Combined Statement of Cash Flows	6
Notes to the Combined Financial Statements	7-12
Accompanying Information:	
Combining Statements of Financial Position	13
Combining Statements of Activities	14
Schedule of Expenditures of Federal Awards	15
Schedule of State Grant Activity	16
Notes to Schedules of Expenditures of Federal Awards and State Grant Activity	17
Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	18 - 19
Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	20-21
Summary Schedule of Prior Audit Findings	22
Schedule of Findings and Questioned Costs	23



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

Members

American Institute of  
Certified Public Accountants

Private Companies  
Practice Section

Kentucky Society of  
Certified Public Accountants

Tennessee Society of  
Certified Public Accountants

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

Kendra S. Bucciarrelli  
Lawrence F. Campbell  
Stacy Boone

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined statement of financial position of Centerstone Community Mental Health Centers, Inc. (a non-profit organization) as of June 30, 2007, and the related combined statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Centerstone Community Mental Health Centers, Inc. as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2007 on our consideration of Centerstone Community Mental Health Centers, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Centerstone Community Mental Health Centers, Inc. taken as a whole. The combining statements of financial position and the combining statements of activities on pages 13 and 14 are presented for purposes of additional analysis and are not a required part of the basic financial information. The schedules of expenditures of federal awards and state grant activity on pages 15 and 16 are presented for the purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Tennessee. Department of Audit, *Audit Manual*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Thurman, Campbell & Co. CPAs*

November 15, 2007

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC  
COMBINED STATEMENT OF FINANCIAL POSITION  
June 30, 2007

ASSETS

Current assets:	
Cash	\$ 2,911,377
Investments	6,585,788
Accounts receivable, (net allowance of \$ 1,707,364 )	10,373,557
Unconditional promises to give	
Restricted to funding for next fiscal year	825,238
Other receivables	185,917
Inventory	95,231
Prepaid expenses	785,653
Total current assets	<u>21,762,761</u>
Long-term unconditional promises to give	
Restricted to funding for fiscal years 2009 to 2014	<u>2,962,806</u>
Property, plant and equipment	39,501,188
Less accumulated depreciation	( 16,763,802 )
	<u>22,737,386</u>
Other assets:	
Cash limited as to use by Board	6,806,663
Deposits	95,294
	<u>6,901,957</u>
Restricted cash:	
Debt service	103,153
Cash	32,991
	<u>136,144</u>
TOTAL ASSETS	<u>\$ 54,501,054</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Current maturities of long-term debt	\$ 1,088,406
Accounts payable	2,045,363
Accrued expenses	6,050,373
Total current liabilities	<u>9,184,142</u>
Long-term debt less current maturities	<u>3,595,526</u>
TOTAL LIABILITIES	<u>12,779,668</u>
<u>NET ASSETS</u>	
Unrestricted	31,147,715
Temporarily restricted	10,573,671
	<u>41,721,386</u>
TOTAL NET ASSETS	<u>41,721,386</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 54,501,054</u>

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC  
COMBINED STATEMENT OF ACTIVITIES  
Year ended June 30, 2007

CHANGES IN UNRESTRICTED NET ASSETS

Public Support:		
Contributions	\$	1,100,297
Revenue:		
Government contracts		1,842,253
Program service fees		46,666,819
Investment return		470,632
Other		<u>597,959</u>
<b>TOTAL UNRESTRICTED SUPPORT AND REVENUE</b>		<b>50,677,960</b>
Net assets released from restrictions		
Restrictions satisfied by contract\grant compliance		<u>14,005,385</u>
<b>TOTAL UNRESTRICTED SUPPORT, REVENUE AND RECLASSIFICATIONS</b>		<b><u>64,683,345</u></b>
Expenses and Losses:		
Program services		50,536,404
Supporting services		14,798,211
Development		<u>365,786</u>
<b>TOTAL EXPENSES</b>		<b><u>65,700,401</u></b>
<b>DECREASE IN UNRESTRICTED NET ASSETS</b>		<b><u>(1,017,056)</u></b>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Government contracts\grants		14,005,385
Contributions		3,988,044
Net Investment return		850,664
Net assets released from restrictions.		
Restrictions satisfied by contract\grant compliance		<u>(14,005,385)</u>
<b>INCREASE IN TEMPORARILY RESTRICTED NET ASSETS</b>		<b><u>4,838,708</u></b>
<b>INCREASE IN NET ASSETS</b>		<b>3,821,652</b>
<b>NET ASSETS BEGINNING OF YEAR</b>		<b><u>37,899,734</u></b>
<b>NET ASSETS END OF YEAR</b>	<b>\$</b>	<b><u><u>41,721,386</u></u></b>

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
COMBINED STATEMENT OF FUNCTIONAL EXPENSES  
Year ended June 30, 2007

	Core Services	Adult Services	Children & Youth Services	Total Program Services	Management & General	Development	Total Functional Expenses
Salaries and benefits	\$ 12,047,586	\$ 9,506,337	\$ 10,189,016	\$ 31,742,939	\$ 12,566,049	\$ 198,152	\$ 44,507,140
Facilities	607,922	887,521	521,778	2,017,221	788,184	18,688	2,824,093
Interest	-	18,394	-	18,394	116,505	-	134,899
Communications	342,296	393,537	316,771	1,052,604	406,213	6,343	1,465,160
Travel & transportation	108,484	643,765	515,329	1,267,578	132,873	2,106	1,402,557
Supplies	294,499	690,798	683,186	1,668,483	490,083	8,624	2,167,190
Client assistance	3,054,242	588	524	3,055,354	6,993	14	3,062,361
Subcontracted services	512,878	1,292,009	1,676,513	3,481,400	1,598,175	22,707	5,102,282
Professional fees	14,050	966	57,506	72,522	546,661	-	619,183
Computer	7,816	4,856	13,465	26,137	131,992	5,804	163,933
Insurance	379,944	166,378	119,490	665,812	25,417	685	691,914
Depreciation	368,305	270,401	266,357	905,063	714,976	12,090	1,632,129
Advertising & promotion	20,446	37,310	34,790	92,546	78,074	1,276	171,896
Postage	41,050	13,005	14,209	68,264	86,317	3,425	158,006
Professional growth	53,545	87,941	167,916	309,402	101,486	34,561	445,449
Bad debt	3,987	71	-	4,058	860,258	-	864,316
Other	125,335	100,990	318,841	545,166	(308,584)	51,311	287,893
Support staff allocation	2,073,342	795,267	674,852	3,543,461	(3,543,461)	-	-
Total Expenses	\$ 20,055,727	\$ 14,910,134	\$ 15,570,543	\$ 50,536,404	\$ 14,798,211	\$ 365,786	\$ 65,700,401

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

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC  
COMBINED STATEMENT OF CASH FLOWS  
Year Ended June 30, 2007

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Increase (decrease) in net assets	\$ 3,821,652
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	1,632,130
Unrealized (gain) or loss on sale of assets	(175,269)
(Increase) decrease in accounts receivable	(7,583,657)
(Increase) decrease in prepaid items	(185,155)
(Increase) decrease in other assets	(573)
Increase (decrease) in accounts payable	550,015
Increase (decrease) in accrued expenses	<u>843,064</u>
Net Cash Provided by (Used in) Operating Activities	<u>(1,097,792)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Net proceeds from the purchase or sale of investments	1,973,816
Acquisition of property & equipment	<u>(6,816,648)</u>
Net Cash Provided by (Used in) Investing Activities	<u>(4,842,832)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Net proceeds of borrowings for capital purposes	<u>3,103,655</u>
Net Cash Provided by (Used In) Capital and Related Financing Activities	<u>3,103,655</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,836,969)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b><u>12,555,009</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b><u><u>\$ 9,718,040</u></u></b>

Supplemental Disclosures

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Interest	<u><u>\$ 141,928</u></u>
----------	--------------------------

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



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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** - Centerstone Community Mental Health Centers, Inc and its affiliates (the Center) are private, non-profit corporations, that provide multi-funded, locally directed community mental health services for treatment and prevention of emotional, mental and social problems of everyday living. The Center maintains clinics in multiple Tennessee counties, with the main administrative offices located in Nashville, Tennessee. The Center and its affiliates share a common management team and Board of Directors.

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

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

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

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

The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. (See Note 3)

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

**Investments** - The organization has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

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

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

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

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

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

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

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

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

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

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

**2 CASH AND CASH EQUIVALENTS**

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

Cash on hand	\$ 13,055
Cash in checking accounts	2,488,996
Money market accounts	<u>7,775,657</u>
	<u><u>\$ 10,277,708</u></u>

**3 PROMISES TO GIVE**

Unconditional promises to give consist of the following:

Restricted to use in future years	\$ 4,398,738
Less: unamortized discount	<u>(610,694)</u>
Net unconditional promises to give	<u><u>\$ 3,788,044</u></u>

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

3 PROMISES TO GIVE (Continued)

Amounts due in:	
Less than one year	\$ 825,238
One to five years	2,822,765
More than five years	<u>140,041</u>
	<u>\$ 3,788,044</u>

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

4 INVESTMENTS

The Centerstone Endowment Trust carries its investments at fair market value. Investments at June 30, 2007 consist of the following:

	<u>Cost</u>	<u>Fair Value</u>
Money markets	\$ 520,059	\$ 520,059
Common stocks	3,412,806	4,321,563
Bonds	<u>1,503,609</u>	<u>1,737,544</u>
	<u>\$ 5,436,474</u>	<u>\$ 6,579,166</u>

5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Estimated Useful Lives</u>
Land	\$ 2,793,056	\$ -	
Buildings and improvements	23,582,180	(8,584,755)	10-40 years
Equipment and vehicles	<u>13,125,952</u>	<u>(8,179,047)</u>	5-20 years
	<u>\$ 39,501,188</u>	<u>\$ (16,763,802)</u>	

Total depreciation expense for 2007 was \$1,632,130

6 NOTES PAYABLE

0% - 6.25% financed insurance	\$ 487,568
Variable rate bonds payable	700,000
8.375% note payable	182,903
Variable rate note payable	2,100,000
4.58% note payable	1,013,904
8.20% note payable	<u>199,557</u>
	4,683,932
Less current maturities	<u>1,088,406</u>
	<u>\$ 3,595,526</u>

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

6 NOTES PAYABLE (Continued)

Insurance has been financed with two notes with interest rates ranging from 0.00 percent to 6.25 percent in the amount of \$487,568. The notes are unsecured. The notes require monthly principal and interest payments of \$76,007 through February 2008.

Per an agreement dated March 1, 1996, The Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee, (the "Metropolitan Board") issued Revenue Bonds in the principle amount of \$4,000,000. The Metropolitan Board agreed to lend to Dede Wallace Center, from the sale proceeds, \$4,000,000 to pay the costs of renovating and equipping certain facilities. Under the terms of the promissory note, principal payments are deposited into a reserve account monthly at various amounts, beginning with \$30,000 and declining over the term to \$8,333 through March 2011. Interest on the outstanding balance is due monthly at variable rates. Principal is paid from the reserve annually. The promissory note is secured by a negative pledge on certain land, buildings, and improvements of the organization and a \$711,667 bank letter of credit guaranteed by the Centerstone Community Mental Health Centers Endowment Trust. The agreements related to the bonds contain various requirements and financial covenants. Management is of the opinion that the Organization is in compliance with all requirements and covenants. The balance was \$700,000 at June 30, 2007.

The 8.375 percent note in the amount of \$182,903 is secured by real estate located in Clarksville, Tennessee. The note requires monthly principal and interest payments of \$1,468 through March 2031.

The 5.77(v) percent note in the amount of \$2,100,000 is secured by a building located in Shelbyville, Tennessee. The note requires monthly principal and interest payments averaging \$16,739 with a balloon payoff of \$1,636,250 in May 2012.

The 4.58 percent note in the amount of \$1,013,904 is secured by equipment located throughout Middle Tennessee. The note requires monthly principal and interest payments of \$20,138 through February 2012.

The 8.20 percent note in the amount of \$199,557 is secured by equipment located throughout Middle Tennessee. The note requires monthly principal and interest payments of \$4,430 through December 2011.

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

2008	\$ 1,088,406
2009	657,704
2010	471,562
2011	386,241
2012	1,916,569

7 RETIREMENT PLAN

On May 1, 1998 the Center implemented a 403(b) Retirement Savings Plan for all eligible employees. The plan allows employee contributions limited to the lesser of 20% of compensation or the maximum allowed by law. The plan also allows for employer matching at the discretion of the Center. Retirement expense for the year ended June 30, 2007 was \$958,648.

8 CONTRACTS

The Center enters into program administrative contracts and grants with the local, state and federal government agencies. These contracts are for the purpose of providing mental health and drug and alcohol services in accordance with applicable federal and state laws, regulations, program guidelines, service definitions and stated goals. Total revenue under these grants and contracts for 2007 was \$1,842,253.

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

9 LEASES

The Center leases property in several Tennessee counties. Total lease expense was \$863,055 for the year ended June 30, 2007.

Present values of future minimum lease payments are as follows:

2008	\$	684,963
2009		521,992
2010		390,947
2011		238,306
2012		41,030

10 COMPENSATED ABSENCES

Employees of the Center are entitled to paid time off depending on the length of service. The estimated value of accumulated paid time off was \$2,869,453 as of June 30, 2007.

11 CONTINGENCIES

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

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

The Center reimburses its health insurance trustee under its group health insurance plan on a claims made basis. The estimated liability for unpaid claims was \$610,485 as of June 30, 2007.

12 FINANCIAL INSTRUMENTS

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

13 CONCENTRATION OF CREDIT RISK

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

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

14 CENTERSTONE ENDOWMENT TRUST

On October 28, 2000 Centerstone Community Mental Health Centers, Inc established Centerstone Endowment Trust for the purpose of serving as a permanent charitable endowment fund for the support of Centerstone. Centerstone Community Mental Health Centers, Inc. is the sole trustee of the Trust. Currently, the terms of the Trust require annual distributions to Centerstone of an amount equal to 4.5% of the average of the net fair market values of the Trust assets as determined at the end of the three most recently completed calendar years. The fair value of the Trust assets as of June 30, 2007 was \$6,579,166 (See Note 4).

The Trust was initially funded by a gift from the Dede Wallace Foundation. The terms of the gift included restrictions on the use of funds distributed by the Trust to Centerstone.

## ACCOMPANYING INFORMATION

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
COMBINING STATEMENTS OF FINANCIAL POSITION  
June 30, 2007

<u>ASSETS</u>		Centerstone	Cumberland Holding Corp.	Advantage Behavioral Health	Centerstone Endowment Trust	Sub-total	Eliminations	Combined Total
Current assets:								
Cash	\$	2,779,936	\$	56,864	\$	74,577	\$	2,911,377
Investments		6,623				6,579,165		6,585,788
Accounts receivable		10,818,180		67,882			(512,505)	10,373,557
Unconditional promises to give								
Restricted to funding for the next fiscal year		825,238						825,238
Other receivables		2,478,807					(2,292,890)	185,917
Inventory		95,231						95,231
Prepaid expenses		779,460		6,193				785,653
Total current assets		17,783,475	56,864	148,652	6,579,165	24,568,156	(2,805,395)	21,762,761
Long-term unconditional promises to give								
Restricted to funding for fiscal years 2009-2014		2,962,806	-	-	-	2,962,806	-	2,962,806
Property, plant and equipment								
Less accumulated depreciation		39,298,138	203,050	-	-	39,501,188	-	39,501,188
		(16,686,049)	(77,753)			(16,763,802)		(16,763,802)
		22,612,089	125,297	-	-	22,737,386	-	22,737,386
Other assets:								
Cash limited as to use by Board		6,806,663	-	-	-	6,806,663	-	6,806,663
Deposits		95,294				95,294		95,294
Restricted cash:		6,901,957	-	-	-	6,901,957	-	6,901,957
Debt Service								
Other		103,153	-	-	-	103,153	-	103,153
		103,153	32,991			32,991		32,991
		50,363,480	215,152	148,652	6,579,165	57,306,449	(2,805,395)	54,501,054
TOTAL ASSETS		\$	\$	\$	\$	\$	\$	\$
<u>LIABILITIES</u>								
Current liabilities:								
Current maturities of long-term debt		1,084,142	4,264	-	-	1,088,406	-	1,088,406
Accounts payable		2,043,618	107,688	-	293,538	2,444,844	(399,481)	2,045,363
Accrued expenses		5,875,147	2,421	2,578,719	-	8,456,287	(2,405,914)	6,050,373
Total current liabilities		9,002,907	114,373	2,578,719	293,538	11,989,537	(2,805,395)	9,184,142
Long-term debt less current liabilities		3,416,887	178,639	-	-	3,595,526	-	3,595,526
		12,419,794	293,012	2,578,719	293,538	15,585,063	(2,805,395)	12,779,668
TOTAL LIABILITIES								
<u>NET ASSETS</u>								
Unrestricted		33,955,642	(77,860)	(2,430,067)	-	31,447,715	(300,000)	31,147,715
Temporarily restricted		3,988,044			6,285,627	10,273,671	300,000	10,573,671
		37,943,686	(77,860)	(2,430,067)	6,285,627	41,721,386	-	41,721,386
TOTAL NET ASSETS								
TOTAL LIABILITIES AND NET ASSETS		\$	\$	\$	\$	\$	\$	\$
		50,363,480	215,152	148,652	6,579,165	57,306,449	(2,805,395)	54,501,054



CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
COMBINING STATEMENTS OF ACTIVITIES  
Year ended June 30, 2007

	CHANGES IN UNRESTRICTED NET ASSETS					Centerstone Endowment Trust	Sub-total	Eliminations	Combined Total
	Centerstone	Cumberland Holding Corp.	Advantage Behavioral Health						
Public Support:	\$ 1,400,297	\$ -	\$ -	\$ -	\$ -		\$ 1,400,297	\$ (300,000)	\$ 1,100,297
Contributions									
Revenue:									
Government contracts	1,697,371		144,882				1,842,253		1,842,253
Program service fees	46,666,819						46,666,819		46,666,819
Investment return	470,278	354					470,632		470,632
Other	557,981	35,195	4,783				597,959		597,959
<b>TOTAL UNRESTRICTED SUPPORT &amp; REVENUE</b>	<b>50,792,746</b>	<b>35,549</b>	<b>149,665</b>				<b>50,977,960</b>	<b>(300,000)</b>	<b>50,677,960</b>
Net assets released from restrictions:									
Restrictions satisfied by grant compliance	14,005,385	-	-				14,005,385		14,005,385
<b>TOTAL UNRESTRICTED SUPPORT, REVENUE AND RECLASSIFICATIONS</b>	<b>64,798,131</b>	<b>35,549</b>	<b>149,665</b>				<b>64,983,345</b>	<b>(300,000)</b>	<b>64,683,345</b>
Expenses:									
Program services	50,456,728	79,676					50,536,404		50,536,404
Supporting services	13,050,132		1,748,079				14,798,211		14,798,211
Development	365,786						365,786		365,786
<b>TOTAL EXPENSES</b>	<b>63,872,646</b>	<b>79,676</b>	<b>1,748,079</b>				<b>65,700,401</b>		<b>65,700,401</b>
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	<b>925,485</b>	<b>(44,127)</b>	<b>(1,598,414)</b>				<b>(717,056)</b>	<b>(300,000)</b>	<b>(1,017,056)</b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>									
Government contracts/grants	14,005,385						14,005,385		14,005,385
Contributions	3,988,044						3,988,044		3,988,044
Investment return						868,021	868,021		868,021
Investment/professional fees						(17,357)	(17,357)		(17,357)
Contributions made						(300,000)	(300,000)		
Net assets released from restrictions	(14,005,385)						(14,005,385)	300,000	(14,005,385)
Restrictions satisfied by grant compliance									
<b>INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>3,988,044</b>					<b>550,664</b>	<b>4,538,708</b>	<b>300,000</b>	<b>4,838,708</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>4,913,529</b>	<b>(44,127)</b>	<b>(1,598,414)</b>			<b>550,664</b>	<b>3,821,652</b>		<b>3,821,652</b>
<b>NET ASSETS BEGINNING OF YEAR</b>	<b>33,030,157</b>	<b>(33,733)</b>	<b>(831,653)</b>			<b>5,734,963</b>	<b>37,899,734</b>		<b>37,899,734</b>
<b>NET ASSETS END OF YEAR</b>	<b>\$ 37,943,686</b>	<b>\$ (77,860)</b>	<b>\$ (2,430,067)</b>			<b>\$ 6,285,627</b>	<b>\$ 41,721,386</b>	<b>\$ -</b>	<b>\$ 41,721,386</b>

**CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS INC**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended June 30, 2007

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	June 30, 2006 (Accrued)	Federal Receipts	Federal Expenditures	June 30, 2007 (Accrued)
<b>U.S. Dept. of Agriculture</b>						
TN Department of Education						
School Breakfast/Lunch Program	10.553/10.555	DA0602287	\$ (3,414)	\$ 3,414	\$	\$
School Breakfast/Lunch Program	10.553/10.555	DA0700143		6,294	(6,294)	
TN Department of Human Services						
School Breakfast/Lunch Program	10.553/10.555	DA0600110	(957)	3,169	(2,202)	
Subtotal-U.S. Dept. of Agriculture			<u>(4,381)</u>	<u>12,877</u>	<u>(8,496)</u>	
<b>U.S. Dept. of Housing &amp; Urban Development</b>						
Tennessee Department of Human Services						
Emergency Shelter Grant	14.231	207031491	0	13,044	(13,518)	(474)
Emergency Shelter Grant	14.231	206026076	(424)	424		
Subtotal-U.S. Dept. of Housing & Urban Development			<u>(424)</u>	<u>13,468</u>	<u>(13,518)</u>	<u>(474)</u>
<b>U.S. Dept. of Justice</b>						
TN Dept. of Finance and Administration						
Victims of Crime Assistance	16.575	207033103		44,163	(50,997)	(6,834)
Victims of Crime Assistance	16.575	207033110		27,145	(30,853)	(3,707)
Victims of Crime Assistance	16.575	207033127		29,008	(43,266)	(14,258)
Victims of Crime Assistance	16.575	206099323	(2,623)	2,823		
Victims of Crime Assistance	16.575	206099350	(4,856)	4,856		
Victims of Crime Assistance	16.575	206004850	(3,277)	3,277		
TN Department of Mental Health and Developmental Disabilities						
Peer Power	16.679	GR0617072	(18,356)	18,356		
Subtotal-U.S. Dept. of Justice			<u>(29,122)</u>	<u>129,439</u>	<u>(125,116)</u>	<u>(24,799)</u>
<b>U.S. Dept. of Health &amp; Human Services</b>						
Bilingual/Bicultural Service Demonstration Program	93.105	MOA	(2,785)	2,795		
SPRANS-Community Based Abstinence Program	93.010	1-H1DMC03202	(272,927)	658,105	(721,560)	(335,382)
SAMHSA-Clarksville Homeless Adult Program	93.243	6H70T16562	(88,912)	370,419	(391,500)	(89,993)
IMPACT-Centerstone's Older Adult Program	93.243	5H79SM55910	(84,055)	329,170	(326,396)	(81,291)
Melphamptan Awareness & Prevention	93.243	1H79SP014042		87,874	(137,641)	(49,767)
Project Star	93.243	1H79T107755		81,764	(165,113)	(83,349)
TN Dept. of Mental Health & Developmental Disabilities						
Child Mental Health Service Initiative	93.104	GR0517719	(209,504)	577,544	(703,741)	(236,031)
Mental Health Recovery Services	93.150	GR0717903		52,481	(84,991)	(32,510)
CMHS Suicide	93.243	GR0617680	(17,834)	59,485	(59,453)	(16,792)
Data Infrastructure Grant	93.243	2-07033417			(2,559)	(2,559)
Community Mental Health Services	93.958	GR0617066	(139,214)	139,214		
Community Mental Health Services	93.958	GR0617186	(278,097)	278,097		
Community Mental Health Services	93.958	GR0717903		544,734	(726,200)	(181,466)
Community Mental Health Services	93.958	GR0718116		294,392	(479,077)	(184,685)
Center for Substance Abuse Treatment	93.958	GR0617745	(267,723)	628,568	(526,923)	(166,078)
Criminal Justice Liaison	93.958	GR0717897		78,486	(100,000)	(21,514)
Substance Abuse Treatment for Older Adults	93.243	GR0516746	(148,240)	505,370	(555,500)	(199,370)
TN Dept. of Finance & Administration						
General Continuum Crisis Services	93.778	GR0721536			(66,772)	(66,772)
TN Dept. of Health						
Alcohol & Drug Abuse	93.959	Z06027697	(64,395)	64,396		
Alcohol & Drug Abuse	93.959	Z07034131		355,707	(452,369)	(96,679)
Community Prevention Initiative (Strengthening Families)	93.959	GR0718111		114,756	(176,407)	(61,651)
Community Prevention Initiative (Strengthening Families)	93.959	GR0617677	(35,253)	36,253		
Community Prevention Initiative (Strengthening Families)	93.959	GR0617609	(18,480)	19,480		
Community Prevention Initiative (Strengthening Families)	93.959	GR0617685	(53,271)	53,271		
Project Star	93.959	GR0718158		109,956	(170,698)	(60,942)
Metro Davidson Co. Board Of Health						
Community Prevention Initiative (Peer Power)	93.959	N/A	(3,285)	44,777	(60,836)	(19,344)
Subtotal U.S. Dept. of Health & Human Services			<u>(1,586,296)</u>	<u>5,588,104</u>	<u>(5,898,953)</u>	<u>(1,597,145)</u>
<b>Total Federal Awards</b>			<b>\$ (1,720,223)</b>	<b>\$ 5,743,888</b>	<b>\$ (6,046,083)</b>	<b>\$ (2,022,418)</b>

See accompanying notes to schedules

CENTERSTONE COMMUNITY MENTAL HEALTH CENTERS, INC.  
SCHEDULE OF STATE GRANT ACTIVITY  
Year ended June 30, 2007

State Grantor/ Program Title	State Grantor Number	June 30, 2006 (Accrued)	Receipts	State Expenditures	June 30, 2007 (Accrued)
<b>TN Dept. of Mental Health &amp; Developmental Disabilities</b>					
Community Mental Health Services	GR0617066	\$ (99,809)	\$ 99,809	\$ -	\$ -
Community Mental Health Services	GR0718116	-	263,918	(480,809)	(216,891)
Mental Health Recovery Services	GR0717903	-	214,283	(985,172)	(770,889)
Peer Power	GR0617072	(6,121)	6,121	-	-
Targeted Transitional Support	GR0617186	(30,702)	30,702	-	-
Regional Housing	GR0617087	(19,928)	19,928	-	-
Nashville Connection	GR0617606	(35,081)	35,081	-	-
Forensic Services	GR0616965	(31,175)	31,175	-	-
Criminal Justice Liason	GR0717825	-	38,200	(48,250)	(10,050)
Crisis Respite Services	GR0717897	-	1,870	(40,000)	(38,130)
Safety Net		-	-	(433,101)	(433,101)
Safety Net	Z06028769	(270,167)	270,167	-	-
All Hazard Training	Z07033254	-	1,254,591	(1,546,155)	(291,564)
All Hazard Training	GR0617097	(2,429)	2,429	-	-
	GR0718131	-	2,323	(13,000)	(10,677)
<b>TN Dept. of Health</b>					
Alcohol & Drug Abuse	Z06027897	(16,159)	16,159	-	-
Alcohol & Drug Abuse	Z07034131	-	94,556	(120,255)	(25,699)
<b>TN Dept. of Finance &amp; Administration</b>					
General & Continuum Crisis Behavioral Health Svs	GR0721536	-	-	(38,684)	(38,684)
<b>TN Dept. of Children's Services</b>					
Level II Continuum	P2C000001	-	2,466,858	(2,925,686)	(458,828)
Level II Continuum	H2C000028	(411,664)	411,664	-	-
Level II Special Population	H2P000034	(6,611)	6,611	-	-
Level III Continuum	P3C000001	-	869,375	(973,700)	(104,325)
Level III Continuum	H3C000024	(145,863)	145,863	-	-
Level I Foster Care	PFC000001	-	190,813	(241,357)	(50,544)
Level I Foster Care	HFC000028	(39,544)	39,544	-	-
Primary Treatment Center	HPT000011	(60,239)	61,776	(1,537)	-
Responsible Parenting	GR0617773	(6,912)	40,717	(49,617)	(15,812)
Strengthening Families	GR0617766	(14,285)	52,980	(61,979)	(23,284)
<b>Total State Grant Activity</b>		<b>\$ (1,196,689)</b>	<b>\$ 6,667,513</b>	<b>\$ (7,959,302)</b>	<b>\$ (2,488,478)</b>

See accompanying notes to schedules.

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

NOTE A BASIS OF PRESENTATION

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



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

Members

American Institute of  
Certified Public Accountants

Private Companies  
Practice Section

Kentucky Society of  
Certified Public Accountants

Tennessee Society of  
Certified Public Accountants

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

Kendra S. Bucciarelli  
Lawrence F. Campbell  
Stacy Boone

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

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

We have audited the financial statements of Centerstone Community Mental Health Centers, Inc. (Organization) as of and for the year ended June 30, 2007, and issued our report thereon dated November 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. See finding 07-1.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance

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

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

*Thurman, Campbell & Co. CPAs*

November 15, 2007