

**CUMBERLAND HEIGHTS
FOUNDATION, INC. AND AFFILIATES**

Consolidated Financial Statements and Schedules

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)



LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

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CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

**The Board of Directors of
Cumberland Heights Foundation, Inc.:**

We have audited the accompanying consolidated statements of financial position of Cumberland Heights Foundation, Inc. and Affiliates as of December 31, 2007 and 2006, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cumberland Heights Foundation, Inc. and Affiliates as of December 31, 2007 and 2006, and the results of their activities and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information in the schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Lattimore Black Morgan & Cain, PC

**Brentwood, Tennessee
April 30, 2008**

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Consolidated Statements of Financial Position

December 31, 2007 and 2006

	<u>Assets</u>	
	<u>2007</u>	<u>2006</u>
Current assets:		
Cash	\$ 1,200,657	\$ 623,756
Accounts receivable for services, less allowance for doubtful accounts of \$499,071 in 2007 and \$451,094 in 2006	2,387,553	2,501,004
Current portion of pledges receivable, less allowance for uncollectible pledges of \$95,000 in 2007 and \$21,112 in 2006	876,462	1,344,317
Other current assets	<u>133,971</u>	<u>110,650</u>
Total current assets	4,598,643	4,579,727
Property and equipment, net	17,116,550	12,196,429
Pledges receivable, excluding current portion	1,030,769	1,250,629
Endowment investments	918,272	802,883
Beneficial interest in perpetual trust	561,352	559,848
Restricted cash	<u>4,261,954</u>	<u>-</u>
	\$ <u>28,487,540</u>	\$ <u>19,389,516</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Line of credit	\$ 420,915	\$ 471,585
Current installments of long-term debt	-	139,392
Accounts payable	490,012	1,180,984
Accrued expenses	<u>789,998</u>	<u>753,895</u>
Total current liabilities	1,700,925	2,545,856
Long-term debt, excluding current installments	9,991,000	2,421,148
Fair market value of interest rate swap agreement	<u>325,603</u>	<u>-</u>
Total liabilities	<u>12,017,528</u>	<u>4,967,004</u>
Net assets:		
Unrestricted	13,298,146	10,593,133
Temporarily restricted	2,396,861	3,061,350
Permanently restricted	<u>775,005</u>	<u>768,029</u>
Total net assets	<u>16,470,012</u>	<u>14,422,512</u>
	\$ <u>28,487,540</u>	\$ <u>19,389,516</u>

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Consolidated Statements of Activities

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Changes in unrestricted net assets:		
Public support and revenue:		
Net patient service revenue	\$ 19,341,353	\$ 17,135,278
Contributions	57,033	41,915
Investment income	74,430	98,454
Other	<u>499,560</u>	<u>481,316</u>
Total public support and revenue	19,972,376	17,756,963
Satisfaction of restrictions	<u>2,711,401</u>	<u>5,947,137</u>
Total unrestricted public support and revenue	<u>22,683,777</u>	<u>23,704,100</u>
Expenses:		
Program services:		
Clinical services	8,920,282	8,134,084
Ancillary services	<u>3,959,445</u>	<u>3,578,596</u>
Total program services	<u>12,879,727</u>	<u>11,712,680</u>
Supporting services:		
Administrative and fiscal	5,278,129	5,024,029
Marketing and public relations	<u>1,495,305</u>	<u>1,074,371</u>
Total supporting services	6,773,434	6,098,400
Loss on interest rate swap	<u>325,603</u>	<u>-</u>
Total expenses	<u>19,978,764</u>	<u>17,811,080</u>
Increase in unrestricted net assets	<u>2,705,013</u>	<u>5,893,020</u>
Changes in temporarily restricted net assets:		
Contributions	2,028,509	1,992,540
Investment income	18,403	16,947
Net assets released from restrictions	<u>(2,711,401)</u>	<u>(5,798,481)</u>
Decrease in temporarily restricted net assets	<u>(664,489)</u>	<u>(3,788,994)</u>
Changes in permanently restricted net assets:		
Investment income	6,976	36,193
Net assets released to temporary restrictions or unrestricted	<u>-</u>	<u>(148,656)</u>
Increase (decrease) in permanently restricted net assets	<u>6,976</u>	<u>(112,463)</u>
Increase in net assets	2,047,500	1,991,563
Net assets at beginning of year	<u>14,422,512</u>	<u>12,430,949</u>
Net assets at end of year	\$ <u>16,470,012</u>	\$ <u>14,422,512</u>

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>2,047,500</u>	\$ <u>1,991,563</u>
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation and amortization	875,242	885,675
Provision for doubtful accounts	757,694	782,530
Provision for uncollectible pledges	164,155	-
Discount on pledges receivable	(92,668)	(84,382)
Net gain on investments	(37,071)	(97,833)
Loss on interest rate swap agreement	325,603	-
(Increase) decrease in operating assets:		
Accounts receivable for services	(644,243)	(1,276,948)
Pledges receivable	616,228	442,930
Other current assets	(23,321)	24,670
Increase (decrease) in operating liabilities:		
Accounts payable	(690,972)	183,999
Accrued expenses	<u>36,103</u>	<u>(82,020)</u>
Total adjustments	<u>1,286,750</u>	<u>778,621</u>
Net cash provided by operating activities	<u>3,334,250</u>	<u>2,770,184</u>
Cash flows from investing activities:		
Purchases of property and equipment	(5,795,363)	(5,218,107)
Proceeds from sale of investments	65,049	-
Purchases of investments	(144,871)	(36,593)
Restricted cash	<u>(4,261,954)</u>	<u>-</u>
Net cash used by investing activities	<u>(10,137,139)</u>	<u>(5,254,700)</u>
Cash flows from financing activities:		
Proceeds from (repayments of) line of credit, net	(50,670)	(589,175)
Payments on long-term debt	(7,757,539)	(147,701)
Proceeds from long-term debt	<u>15,187,999</u>	<u>607,880</u>
Net cash provided (used) by financing activities	<u>7,379,790</u>	<u>(128,996)</u>
Increase (decrease) in cash	576,901	(2,613,512)
Cash at beginning of year	<u>623,756</u>	<u>3,237,268</u>
Cash at end of year	<u>\$ 1,200,657</u>	<u>\$ 623,756</u>

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(1) Nature of operations

Cumberland Heights Foundation, Inc. (the "Foundation") is a charitable organization that maintains and operates treatment centers for the rehabilitation of persons addicted to the use of alcohol and/or drugs. Cumberland Heights Professional Associates, Inc. ("PA") is a separate organization that provides medical and outpatient services to the patients of the Foundation. Creative Recovery Communities, Inc. ("CRC") is a private high school d/b/a Community High School, and is primarily for students who have completed alcohol and/or drug treatment. Due to the Foundation's economic interest in Cumberland Heights Professional Associates, Inc. and Creative Recovery Communities, Inc. (collectively the "Affiliates") and since the Foundation and the Affiliates share a common board of directors, the Affiliates have been included in the consolidated financial statements of the Foundation.

(2) Summary of significant accounting policies

The consolidated financial statements of the Foundation and Affiliates are presented on the accrual basis. The significant accounting policies followed are described below.

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Foundation and its Affiliates. All significant intercompany accounts and transactions have been eliminated.

(b) Basis of presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and Affiliates and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and Affiliates and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation and Affiliates.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support.

(c) Restricted cash

Restricted cash of \$4,261,954 consists of undisbursed loan proceeds and capital campaign contributions which are restricted for future construction projects of debt service.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(d) Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are shown at their fair values in the consolidated statements of financial position. Investment income shown in the consolidated statements of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment income is reported in the period earned as an increase in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. Investment income that is temporarily restricted by the donor is reported as an increase in unrestricted net assets if the restrictions are met or expire in the year in which the income is recognized. Other donor-restricted investment income is reported as an increase in temporarily restricted net assets, depending on the nature of the restrictions. Investment income for permanently restricted net assets is reported as an increase in unrestricted net assets. Unrealized gains and losses on permanently restricted net assets are reported as increases or decreases in permanently restricted net assets, based on the donor's explicit instructions.

(e) Receivables and credit policies

The Foundation and Affiliates report accounts receivable, net of an allowance for doubtful accounts, at the amount which represents management's estimate of the amount that ultimately will be realized. The Foundation and Affiliates review the adequacy of the allowance for doubtful accounts on an ongoing basis, using historical payment trends, analyses of accounts receivable by payor source and aging of receivables, as well as review of specific accounts, and makes adjustments to the allowance as necessary. The carrying amount of accounts receivable is reduced by the allowance, which reflects management's best estimate of the amounts that will not be collected. Late or interest charges on delinquent accounts are not recorded until collected. Accounts are sent to collections after 90 days of non-payments and are written off in the event of the inability to pay.

(f) Property and equipment

Property and equipment are stated at cost. Donated property and equipment are recorded at their estimated market value at the date of the gift. Depreciation and amortization are provided over the assets' estimated useful lives using the straight-line method.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation or amortization are removed from the accounts, and the resulting gain or loss is recorded as a change in net assets.

(g) Income taxes

The Foundation and Affiliates are exempt from federal and state income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, accordingly, no provision for income taxes is included in the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(h) Revenue recognition

Net patient service revenue is recognized at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are made on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Revenue adjustments totaled \$5,998,566 and \$5,882,508 in 2007 and 2006, respectively.

The Foundation has a Patient Assistance Fund that provides treatment scholarships for persons who have not had a previous treatment experience, who demonstrate a high level of motivation, who have been referred through a regular referral source, and who have no financial resources. The Foundation also provides for indigent patients, under certain circumstances. Revenue is not recognized in the financial statements for charity care. Charity care totaled to \$685,586 and \$653,621 in 2007 and 2006, respectively.

Revenue from tuition for CRC is recorded at the beginning of each month when the student enrolls.

Cash contributions are recognized as revenue when received.

Pledges receivable are unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed, and recorded if material, using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

(i) Advertising and promotion costs

Advertising and promotion costs are expensed as incurred.

(j) Capitalization of interest costs

Interest cost is capitalized when incurred to finance the cost of qualifying assets. Interest costs of \$353,951 and \$211,500 were capitalized during the years ended December 31, 2007 and 2006, respectively. Capitalized interest is net of interest earned on investment of the proceeds of the borrowings of \$87,433 in 2007.

(k) Long-lived assets

The carrying values of long-lived assets are reviewed whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If this review indicates that the asset will not be recoverable, as determined based on the undiscounted cash flows of the operating entity or asset over the remaining amortization period, the carrying value of the asset will be reduced to its fair value.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(l) Fair value of interest rate swap agreement

The Foundation use derivatives to manage risks related to interest rate movements. Interest rate swap contracts designated and qualifying as cash flow hedges are reported at fair value. The loss on the effective portion of the hedge is included in the consolidated statements of activities. The Foundation's interest rate risk management strategy is to stabilize cash flow requirements by maintaining interest rate swap contracts to convert variable-rate debt to a fixed rate.

(m) Use of estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) New accounting pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. SFAS No. 157 also requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy as defined in the standard. Additionally, companies are required to provide enhanced disclosure regarding financial instruments, including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and therefore the Company expects to adopt SFAS 157 at the beginning of 2008. However, in February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for certain nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008. The Company is currently assessing the impact of adopting these accounting standards.

(3) Credit risk and other concentrations

The Foundation generally maintains cash on deposit at banks in excess of federally insured amounts. The Foundation has not experienced any losses in such accounts and management believes the Foundation is not exposed to any significant credit risk related to cash.

The Foundation utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

The Foundation provides rehabilitation treatment for individuals with alcohol and other chemical dependencies under various payor programs. Accordingly, the concentration of accounts receivable from Blue Cross, TennCare, private insurance companies, and individuals as of December 31, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Private insurance	44 %	45 %
Individuals	30	25
Blue Cross	18	25
TennCare	<u>8</u>	<u>5</u>
	<u>100 %</u>	<u>100 %</u>

(4) Pledges receivable

The Foundation solicits pledges of support from board members and others for contributions to be used for the Campaign for Recovery or other purposes. The pledges are discounted when recorded to reflect the present value of expected future collections due after one year. Pledges receivable are reported as temporarily restricted net assets in the accompanying consolidated financial statements and are scheduled to be received as follows:

	<u>2007</u>	<u>2006</u>
Receivable in less than one year	\$ 971,462	\$ 1,365,429
Receivable in one to five years	<u>1,165,337</u>	<u>1,477,865</u>
	2,136,799	2,843,294
Less allowance for uncollectible pledges	95,000	21,112
Less discount	<u>134,568</u>	<u>227,236</u>
	<u>\$ 1,907,231</u>	<u>\$ 2,594,946</u>

(5) Endowment investments

A summary of the fair value of the endowment investments as of December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Cash	\$ 41,720	\$ 39,812
Mutual funds	<u>876,551</u>	<u>763,071</u>
	<u>\$ 918,271</u>	<u>\$ 802,883</u>

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(6) Beneficial interest in perpetual trust

The Foundation is the beneficiary of a trust created by a donor, the assets of which are not in the possession of the Foundation. The Foundation has legally enforceable rights and claims to such income therefrom. Net realized and unrealized gains or losses related to the beneficial interest are reported as changes in permanently restricted net assets based on the explicit donor stipulation. The fair value of the beneficial interest was \$561,352 and \$559,848 at December 31, 2007 and 2006, respectively, and is included in permanently restricted net assets in the accompanying consolidated financial statements.

(7) Investment income

The following schedule summarizes the investment income (loss) in the consolidated statements of activities for 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Interest and dividend income	\$ 71,449	\$ 65,221
Net gain on investments	37,071	97,833
Fees paid	<u>(8,711)</u>	<u>(11,460)</u>
	<u>\$ 99,809</u>	<u>\$ 151,594</u>

(8) Property and equipment

A summary of property and equipment as of December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Land	\$ 348,442	\$ 348,442
Buildings and improvements	20,467,966	9,136,865
Machinery and equipment	2,480,522	2,287,384
Transportation equipment	109,596	109,596
Furniture and fixtures	763,766	583,823
Construction in progress	<u>224,786</u>	<u>6,133,605</u>
	24,395,078	18,599,715
Accumulated depreciation and amortization	<u>(7,278,528)</u>	<u>(6,403,286)</u>
	<u>\$ 17,116,550</u>	<u>\$ 12,196,429</u>

(9) Lines of credit

The Foundation has a \$1,250,000 revolving line of credit available with a bank which expires on June 1, 2008. The revolving line of credit bears interest at the bank's index rate (7.25% at December 31, 2007) and is secured by real and personal property and accounts receivable. The Foundation owed \$420,915 and \$471,585 on the line of credit at December 31, 2007 and 2006, respectively.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

The line of credit agreement is cross-collateralized with the long-term debt (see Note 10). The security agreement with the bank contains certain financial covenants, including requirements for the maintenance of specified current ratios and minimum levels of debt service coverage.

(10) Long-term debt

A summary of long-term debt as of December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Note payable due in scheduled installments as noted below, including interest at a variable rate (7.84% at December 31, 2007) through April 18, 2017.	\$ 9,991,000	\$ -
Notes paid during 2007	<u>-</u>	<u>2,560,540</u>
Total long-term debt	9,991,000	2,560,540
Less current installments	<u>-</u>	<u>139,392</u>
Long-term debt, excluding current installments	<u>\$ 9,991,000</u>	<u>\$ 2,421,148</u>

A summary of future maturities of long-term debt as of December 31, 2007 is as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ -
2009	2,991,000
2010	1,500,000
2011	1,088,688
2012	113,464
2013 and later years	<u>4,297,848</u>
	<u>\$ 9,991,000</u>

In 2007, the Foundation entered into various short-term notes payable agreements with available credit of \$2,700,000 for the purpose of bridge funding for ongoing construction projects. The short-term notes payable, along with the long-term debt, were refinanced on May 15, 2007, from the proceeds of a long-term note payable incurred in connection with a \$9,991,000 Health Facilities Bond issued by the Metropolitan Government of Nashville and Davidson County, Tennessee.

The long-term note payable bears interest at a variable rate based on the 30-day LIBOR rate. The interest is due in monthly installments through maturity. Principal payments will be required as necessary to reduce the outstanding principal balance to \$7,000,000 as of February 15, 2009, \$5,500,000 as of February 15, 2010, and \$4,500,000 as of February 15, 2011. Beginning on March 15, 2011, monthly payments of principal will be payable through April 18, 2017. The final principal payment of approximately \$3,700,000 will be due on May 15, 2017.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

The long-term note payable is secured by a negative pledge of the Foundation's assets and the loan agreement requires maintenance of a minimum debt service coverage ratio. Restricted cash of \$2,670,046 at December 31, 2007 consists of undisbursed proceeds from the note payable and are restricted for use on future construction projects.

(11) Interest rate swap agreement

In May 2007, the Foundation entered into an interest rate swap agreement with a commercial bank to reduce the impact of changes in interest rates on its taxable revenue bond Series 2007. Under the interest rate swap agreement, which is classified as a cash flow hedge, the Foundation pays interest at a fixed rate of 5.23% and receives interest at LIBOR. The existing agreement terminates in May 2017 and has an original notional amount of \$9,991,000. The current notional amount is also \$9,991,000. Notional amounts do not quantify risk or represent assets or liabilities of the Foundation, but are used in the determination of cash settlements under the agreement. At December 31, 2007, the fair value of the agreement was \$325,603 as is reported as a long-term liability in the consolidated statements of financial position. The change in the estimated fair value of the interest rate swap agreement of \$325,603 during the year ended December 31, 2007 is reported as expense in the consolidated statements of activities.

(12) Net assets

Temporarily restricted net assets as of December 31, 2007 and 2006 are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Preservation of capital assets	\$ 1,034,056	\$ 836,502
Campaign for recovery	-	1,505,676
Patient assistance	435,894	152,856
Other	<u>926,911</u>	<u>566,316</u>
	<u>\$ 2,396,861</u>	<u>\$ 3,061,350</u>

Permanently restricted net assets are held in perpetuity with the unrealized gain (loss) reflected as permanently restricted net assets and the income from assets expendable to support certain programs. A summary of the permanently restricted net assets for which the related income is expendable as of December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Olcott Foundation	\$ 561,352	\$ 554,376
Earthman Endowment	<u>213,653</u>	<u>213,653</u>
	<u>\$ 775,005</u>	<u>\$ 768,029</u>

During 2006, transfers of certain permanently restricted net assets were made to temporarily restricted net assets or unrestricted net assets. These transfers are reflected in net assets released to temporary restrictions or unrestricted in the accompanying statement of activities.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(13) Natural classification of expenses

A summary of the natural classification of expenses for the years ended December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Salaries and temporary labor	\$ 12,402,830	\$ 10,891,142
Contract services	1,162,577	1,026,211
Provision for doubtful accounts	757,694	782,530
Depreciation and amortization	875,242	885,675
Interest, including swap agreement	347,822	6,235
General insurance	459,200	466,673
Utilities	518,470	483,715
Food service	636,692	595,074
Supplies	575,530	424,816
Other	<u>2,242,707</u>	<u>2,249,009</u>
	<u>\$ 19,978,764</u>	<u>\$ 17,811,080</u>

(14) Profit-sharing plan

Eligible employees of the Foundation may participate in the Cumberland Heights 401(k) Retirement Plan (the "Plan"). Employees are generally eligible after they reach age 20 1/2 and are employed for six months. The Foundation matches salary deferral contributions 100% up to 3% of compensation and 50% for the next 2% of compensation. The Foundation made contributions of \$150,765 and \$149,774 to the Plan in 2007 and 2006, respectively.

(15) Advertising expenses

Advertising costs of \$441,495 and \$262,285 were expensed during 2007 and 2006, respectively.

(16) Lease commitments

The Foundation leases office space and various office equipment under operating leases. Rent expense under these leases amounted to \$482,708 and \$336,428 in 2007 and 2006, respectively.

A summary of future minimum payments under these leases as of December 31, 2007 is as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 263,046
2009	234,287
2010	122,851
2011	47,572
2012	<u>6,630</u>
	<u>\$ 674,386</u>

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

It is expected that in the normal course of business, leases that expire will be renewed or replaced by other leases; thus, it is anticipated that future lease payments will not be less than the expense for 2007.

(17) Contingent liabilities

The Foundation is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material adverse effect on the Foundation's consolidated financial position or results of operations. As these matters develop, it is reasonably possible management's estimate of their effect could change and an accrual for additional liabilities could be required.

(18) Related party transactions

The Foundation sometimes purchases goods or services from companies or organizations that are affiliated with or owned, directly or indirectly, by members of the Board of Directors. Additionally, the Foundation receives pledges from companies or organizations that are affiliated with or owned, directly or indirectly, by members of the Board of Directors.

(19) Supplemental disclosures of cash flow statement information

	<u>2007</u>	<u>2006</u>
Interest paid, net of capitalized interest of \$353,951 and \$211,500 in 2007 and 2006, respectively	\$ <u>107,833</u>	\$ <u>-</u>

The Foundation used \$2,036,528 of the proceeds of the term loan obtained during 2006 to pay off the remaining balances of two term notes which were outstanding at December 31, 2005.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Consolidating Statement of Financial Position

December 31, 2007

Assets	Cumberland Heights			Eliminating Entries		Consolidated
	Cumberland Heights Foundation, Inc.	Professional Associates, Inc.	Creative Recovery Communities, Inc.	Debit	Credit	
Current assets:						
Cash	\$ 1,080,880	\$ 32,438	\$ 87,339	\$ -	\$ -	\$ 1,200,657
Accounts receivable for services, net	2,253,166	97,156	37,231	-	-	2,387,553
Receivable from related parties	1,087,929	-	-	-	(a) 1,087,929	-
Current portion of pledges receivable, net	875,962	-	500	-	-	876,462
Other current assets	133,971	-	-	-	-	133,971
Total current assets	5,431,908	129,594	125,070	-	1,087,929	4,598,643
Property and equipment, net	17,104,895	-	11,655	-	-	17,116,550
Pledges receivable, excluding current portion	1,030,769	-	-	-	-	1,030,769
Endowment investments	918,272	-	-	-	-	918,272
Beneficial interest in perpetual trust	561,352	-	-	-	-	561,352
Restricted cash	4,261,954	-	-	-	-	4,261,954
Total assets	\$ 29,309,150	\$ 129,594	\$ 136,725	\$ -	\$ 1,087,929	\$ 28,487,540
Liabilities and Net Assets (Deficit)						
Current liabilities:						
Line of credit	\$ 420,915	\$ -	\$ -	\$ -	\$ -	\$ 420,915
Payable to related parties	-	570,567	517,362 (a)	1,087,929	-	-
Accounts payable	483,755	5,863	394	-	-	490,012
Accrued expenses	761,382	28,616	-	-	-	789,998
Total current liabilities	1,666,052	605,046	517,756	1,087,929	-	1,700,925
Long term debt, excluding current installments	9,991,000	-	-	-	-	9,991,000
Fair market value of interest rate swap	325,603	-	-	-	-	325,603
Total liabilities	11,982,655	605,046	517,756	1,087,929	-	12,017,528
Net assets						
Unrestricted	14,371,679	(475,452)	(598,081)	-	-	13,298,146
Temporarily restricted	2,179,811	-	217,050	-	-	2,396,861
Permanently restricted	775,005	-	-	-	-	775,005
Total net assets (deficit)	17,326,495	(475,452)	(381,031)	-	-	16,470,012
	\$ 29,309,150	\$ 129,594	\$ 136,725	\$ 1,087,929	\$ -	\$ 28,487,540

(a) To eliminate intercompany receivables and payables.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Consolidating Statement of Activities

Year ended December 31, 2007

	Cumberland Heights Foundation, Inc.	Cumberland Heights Professional Associates, Inc.	Creative Recovery Communities, Inc.	Eliminating Entries	
				Debit	Credit
Changes in unrestricted net assets:					
Public support & revenue	\$ 18,862,660	\$ 478,693	\$ -	\$ -	\$ -
Net patient service revenue	-	-	57,033	-	-
Contributions	74,430	-	-	-	-
Investment income	230,275	77,290	269,285	(a) 77,290	-
Other	-	-	-	-	-
Total public support and revenue	19,167,365	555,983	326,318	77,290	-
Satisfaction of restrictions	2,671,286	-	40,115	-	-
Total unrestricted public support and revenue	21,838,651	555,983	366,433	77,290	-
Expenses:					
Program services:					
Clinical services	7,848,416	595,756	476,110	-	-
Ancillary services	3,919,330	-	40,115	-	-
Total program services	11,767,746	595,756	516,225	-	-
Supporting services:					
Administrative and fiscal	5,287,804	56,169	11,446	-	(a) 77,290
Marketing and public relations	1,459,825	-	35,480	-	-
Total supporting services	6,747,629	56,169	46,926	-	77,290
Loss on interest rate swap	325,603	-	-	-	-
Total expenses	18,840,978	651,925	563,151	-	77,290
Increase (decrease) in unrestricted net assets (deficit)	2,997,673	(95,942)	(196,718)	77,290	2,705,013
Changes in temporarily restricted net assets:					
Contributions	1,994,364	-	34,145	-	-
Investment income	18,403	-	-	-	-
Net assets released from restrictions	(2,671,286)	-	(40,115)	-	-
Decrease in temporarily restricted net assets (deficit)	(658,519)	-	(5,970)	-	-
Changes in permanently restricted net assets					
Investment income	6,976	-	-	-	-
Net assets released to temporary restrictions or unrestricted	-	-	-	-	-
Increase (decrease) in permanently restricted net assets (deficit)	6,976	-	-	-	-
Increase (decrease) in net assets (deficit)	2,346,130	(95,942)	(202,688)	77,290	2,047,500
Net assets (deficit) at the beginning of the year	14,980,367	(379,510)	(178,345)	-	-
Net assets (deficit) at the end of the year	\$ 17,326,497	\$ (475,452)	\$ (381,033)	\$ 77,290	\$ 16,470,012

(a) To eliminate intercompany administrative fee income/expense.