

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

Consolidated Financial Statements

December 31, 2004 and 2003

(With Independent Auditors' Report Thereon)



LATTIMORE BLACK MORGAN & CAIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

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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 Affiliate as of December 31, 2004 and 2003, and the related consolidated statements of activities, cash flows and functional expenses 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 consolidated financial position of Cumberland Heights Foundation, Inc. and Affiliate as of December 31, 2004 and 2003, 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.

Lattimore, Black, Morgan & Cain, P.C.

Brentwood, Tennessee
April 15, 2005

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CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Consolidated Statements of Financial Position

December 31, 2004 and 2003

	<u>Assets</u>	
	<u>2004</u>	<u>2003</u>
Current assets:		
Cash	\$ 2,021,615	\$ 680,374
Accounts receivable for services, less allowance for doubtful accounts of \$451,481 in 2004 and \$417,831 in 2003	2,103,523	2,047,199
Current portion of pledges receivable, less allowance of \$21,112 in 2004 and \$30,247 in 2003	901,730	146,507
Other current assets	<u>135,888</u>	<u>136,808</u>
Total current assets	5,162,756	3,010,888
Property and equipment, net	6,536,615	5,981,600
Pledges receivable, excluding current portion	2,307,912	275,608
Endowment investments	704,117	693,660
Beneficial interest in perpetual trust	<u>506,171</u>	<u>482,543</u>
	\$ 15,217,571	\$ 10,444,299
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Current installments of long-term debt	\$ 142,581	\$ 139,605
Accounts payable	258,411	263,625
Accrued expenses	<u>614,044</u>	<u>621,095</u>
Total current liabilities	1,015,036	1,024,325
Line of credit	372,661	837,880
Long-term debt, excluding current installments	<u>2,074,269</u>	<u>2,207,508</u>
Total liabilities	3,461,966	4,069,713
Net assets:		
Unrestricted	5,388,354	4,446,408
Temporarily restricted	5,496,161	1,080,487
Permanently restricted	<u>871,090</u>	<u>847,691</u>
Total net assets	11,755,605	6,374,586
	\$ 15,217,571	\$ 10,444,299

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Consolidated Statements of Activities

Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Changes in unrestricted net assets:		
Public support and revenue:		
Net patient service revenue	\$ 14,278,063	\$ 12,722,359
Contributions	91,736	66,544
Investment income	21,175	81,407
Other	<u>212,402</u>	<u>211,523</u>
Total public support and revenue	14,603,376	13,081,833
Satisfaction of restrictions	<u>686,385</u>	<u>1,062,867</u>
Total unrestricted public support and revenue	<u>15,289,761</u>	<u>14,144,700</u>
Expenses:		
Program services:		
Clinical services	6,625,861	6,472,889
Ancillary services	<u>3,127,333</u>	<u>3,224,913</u>
Total program services	<u>9,753,194</u>	<u>9,697,802</u>
Supporting services:		
Administrative and fiscal	3,837,999	3,706,528
Marketing and public relations	<u>756,622</u>	<u>634,391</u>
Total supporting services	<u>4,594,621</u>	<u>4,340,919</u>
Total expenses	<u>14,347,815</u>	<u>14,038,721</u>
Increase in unrestricted net assets	<u>941,946</u>	<u>105,979</u>
Changes in temporarily restricted net assets:		
Contributions	5,100,434	807,178
Investment income	1,625	9,386
Net assets released from restrictions	<u>(686,385)</u>	<u>(1,062,867)</u>
Increase (decrease) in temporarily restricted net assets	<u>4,415,674</u>	<u>(246,303)</u>
Changes in permanently restricted net assets - investment income	<u>23,399</u>	<u>58,667</u>
Increase (decrease) in net assets	5,381,019	(81,657)
Net assets at beginning of year	<u>6,374,586</u>	<u>6,456,243</u>
Net assets at end of year	\$ <u>11,755,605</u>	\$ <u>6,374,586</u>

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Consolidated Statements of Cash Flows

Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>5,381,019</u>	\$ <u>(81,657)</u>
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation and amortization	552,744	518,977
Provision for doubtful accounts	675,341	666,312
Net gain on investments	(31,119)	(121,609)
(Increase) decrease in operating assets:		
Accounts receivable for services	(731,665)	(804,839)
Pledges receivable	(2,787,527)	(21,575)
Other current assets	918	(79,977)
Increase (decrease) in operating liabilities:		
Accounts payable	(5,214)	82,523
Accrued expenses	<u>(7,051)</u>	<u>99,925</u>
Total adjustments	<u>(2,333,573)</u>	<u>339,737</u>
Net cash provided by operating activities	<u>3,047,446</u>	<u>258,080</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,107,758)	(928,792)
Purchases of investments	<u>(2,966)</u>	<u>(135,598)</u>
Net cash used by investing activities	<u>(1,110,724)</u>	<u>(1,064,390)</u>
Cash flows from financing activities:		
Proceeds from (repayments of) line of credit, net	(465,219)	87,880
Proceeds from notes payable	-	1,500,000
Payments on long-term debt	(130,262)	(102,887)
Principal payments on capital leases	<u>-</u>	<u>(15,004)</u>
Net cash provided (used) by financing activities	<u>(595,481)</u>	<u>1,469,989</u>
Increase in cash	1,341,241	663,679
Cash at beginning of year	<u>680,374</u>	<u>16,695</u>
Cash at end of year	\$ <u>2,021,615</u>	\$ <u>680,374</u>

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Consolidated Statement of Functional Expenses

Year ended December 31, 2004

	<u>Program Services</u>			<u>Supporting Services</u>			
	<u>Clinical Services</u>	<u>Ancillary Services</u>	<u>Total</u>	<u>Administrative and Fiscal</u>	<u>Marketing and Public Relations</u>	<u>Total</u>	<u>Grand Total</u>
Salaries and related expenses	\$ 4,283,326	\$ 1,612,500	\$ 5,895,826	\$ 1,806,706	\$ 368,762	\$ 2,175,468	\$ 8,071,294
Advertising and promotion	440	-	440	8,577	131,496	140,073	140,513
Provision for doubtful accounts	675,341	-	675,341	-	-	-	675,341
Employee recruitment and training	26,816	11,455	38,271	66,941	3,461	70,402	108,673
Food services	-	501,362	501,362	-	-	-	501,362
Insurance - general	-	-	-	493,305	-	493,305	493,305
Depreciation and amortization	276,372	138,186	414,558	121,604	16,582	138,186	552,744
Printing and publications	19,571	3,954	23,525	48,212	29,894	78,106	101,631
Postage	944	78	1,022	29,681	16,683	46,364	47,386
Collection fees	-	-	-	7,888	-	7,888	7,888
Legal and professional	-	-	-	66,040	-	66,040	66,040
Patient assistance	26,780	118,655	145,435	-	-	-	145,435
Contract services	636,338	285,836	922,174	293,452	22,936	316,388	1,238,562
Rent	89,900	40,599	130,499	89,831	-	89,831	220,330
Repairs and maintenance	304	91,842	92,146	16,445	-	16,445	108,591
Supplies	119,896	249,711	369,607	61,620	3,632	65,252	434,859
Taxes, licenses and fees	3,750	385	4,135	68,552	-	68,552	72,687
Travel and entertainment	37,347	9,327	46,674	45,242	55,729	100,971	147,645
Utilities	38,563	20,275	58,838	267,941	15,791	283,732	342,570
Interest	61,168	30,584	91,752	26,914	3,670	30,584	122,336
Temporary labor	314,911	7,441	322,352	4,658	4,748	9,406	331,758
Other	14,094	5,143	19,237	99,095	23,422	122,517	141,754
Fundraising	-	-	-	-	59,816	59,816	59,816
Special projects	-	-	-	215,295	-	215,295	215,295
Total	\$ 6,625,861	\$ 3,127,333	\$ 9,753,194	\$ 3,837,999	\$ 756,622	\$ 4,594,621	\$ 14,347,815

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Consolidated Statement of Functional Expenses

Year ended December 31, 2003

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Grand Total</u>
	<u>Clinical Services</u>	<u>Ancillary Services</u>	<u>Total</u>	<u>Administrative and Fiscal</u>	<u>Marketing and Public Relations</u>	<u>Total</u>	
Salaries and related expenses	\$ 4,080,086	\$ 1,667,494	\$ 5,747,580	\$ 2,019,465	\$ 266,314	\$ 2,285,779	\$ 8,033,359
Advertising and promotion	445	-	445	8,668	183,932	192,600	193,045
Provision for doubtful accounts	666,312	-	666,312	-	-	-	666,312
Employee recruitment and training	14,998	1,712	16,710	27,478	-	27,478	44,188
Gifts and awards	-	-	-	3,426	-	3,426	3,426
Food services	-	481,867	481,867	-	-	-	481,867
Insurance - general	21,677	6,264	27,941	324,416	659	325,075	353,016
Depreciation and amortization	259,489	129,744	389,233	114,175	15,569	129,744	518,977
Printing and publications	26,535	5,109	31,644	42,313	24,710	67,023	98,667
Postage	3,351	56	3,407	21,858	9,947	31,805	35,212
Collection fees	-	-	-	19,280	-	19,280	19,280
Legal and professional	-	-	-	116,207	-	116,207	116,207
Patient assistance	43,098	111,684	154,782	-	-	-	154,782
Contract services	637,293	317,619	954,912	285,465	50,554	336,019	1,290,931
Rent	92,679	38,764	131,443	66,265	-	66,265	197,708
Repairs and maintenance	737	101,244	101,981	13,391	171	13,562	115,543
Supplies	116,737	254,802	371,539	45,719	3,579	49,298	420,837
Taxes, licenses and fees	3,000	1,135	4,135	28,785	-	28,785	32,920
Travel and entertainment	20,881	14,419	35,300	64,810	41,150	105,960	141,260
Utilities	65,833	37,796	103,629	183,587	13,854	197,441	301,070
Interest	61,580	30,790	92,370	27,095	3,695	30,790	123,160
Temporary labor	345,876	7,717	353,593	21,461	-	21,461	375,054
Other	12,282	16,697	28,979	110,785	4,754	115,539	144,518
Fundraising	-	-	-	-	15,503	15,503	15,503
Special projects	-	-	-	161,879	-	161,879	161,879
Total	\$ 6,472,889	\$ 3,224,913	\$ 9,697,802	\$ 3,706,528	\$ 634,391	\$ 4,340,919	\$ 14,038,721

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(1) Nature of operations

Cumberland Heights Foundation, Inc. and Affiliate (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. ("Affiliate") is a separate organization that provides medical and outpatient services to the patients of the Foundation. Due to the Foundation's economic interest in the Affiliate and since the Foundation and the Affiliate share a common board of directors, the Affiliate has been included in the consolidated financial statements of the Foundation.

(2) Summary of significant accounting policies

The consolidated financial statements of the Foundation 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 Affiliate. 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 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/or the passage of time.

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

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 that increases those net asset classes.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(c) 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.

(d) Receivables and credit policies

The Foundation reports 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 reviews the adequacy of its 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.

(e) 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.

(f) Income taxes

The Foundation and its Affiliate are exempt from federal 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 AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(g) 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.

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.

Cash contributions are recognized as revenue when received.

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.

(h) Advertising and promotion costs

Advertising and promotion costs are expensed as incurred.

(i) 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.

(j) 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.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(k) Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(l) Reclassifications

Certain reclassifications have been made to the 2003 consolidated financial statements in order for them to conform to the 2004 presentation. These reclassifications have no effect on net assets or changes in net assets as previously reported.

(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.

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, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Private insurance	43 %	45 %
Individuals	31	27
Blue Cross	20	22
TennCare	<u>6</u>	<u>6</u>
	<u>100 %</u>	<u>100 %</u>

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(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. A discount rate of 4% is used 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>2004</u>	<u>2003</u>
Receivable in less than one year	\$ 922,842	\$ 176,754
Receivable in one to five years	<u>2,651,530</u>	<u>275,608</u>
	3,574,372	452,362
Less allowance for uncollectible pledges	21,112	30,247
Less discount	<u>343,618</u>	<u>-</u>
	<u>\$ 3,209,642</u>	<u>\$ 422,115</u>

(5) 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 \$506,171 and \$482,543 at December 31, 2004 and 2003, respectively, and is included in permanently restricted net assets in the accompanying consolidated financial statements.

(6) Endowment investments

A summary of the fair value of the endowment investments as of December 31, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Cash	\$ 60,269	\$ 157,338
Mutual funds	<u>643,848</u>	<u>536,322</u>
	<u>\$ 704,117</u>	<u>\$ 693,660</u>

The following schedule summarizes the investment income (loss) in the consolidated statements of activities for 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Interest and dividend income	\$ 26,611	\$ 34,295
Net gain on investments	31,119	121,609
Fees paid	<u>(11,531)</u>	<u>(6,444)</u>
	<u>\$ 46,199</u>	<u>\$ 149,460</u>

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(7) Property and equipment

A summary of property and equipment as of December 31, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Land	\$ 348,442	\$ 348,442
Buildings and improvements	7,522,712	7,109,465
Machinery and equipment	1,742,333	1,608,465
Transportation equipment	109,596	94,225
Furniture and fixtures	412,631	368,031
Construction in progress	<u>1,239,959</u>	<u>739,288</u>
	11,375,673	10,267,916
Accumulated depreciation and amortization	<u>(4,839,058)</u>	<u>(4,286,316)</u>
	<u>\$ 6,536,615</u>	<u>\$ 5,981,600</u>

(8) Line of credit

The Foundation has a \$1,250,000 revolving line of credit available with a bank which expires on June 01, 2006. The revolving line of credit bears interest at the bank's index rate plus 1.0% per annum (6.25% at December 31, 2004) and is secured by real and personal property and accounts receivable. The Foundation owed \$372,661 and \$837,880 on the line of credit at December 31, 2004 and 2003, respectively.

The line of credit agreement is cross-collateralized with the long-term debt (see Note 9). The security agreement with the bank contains certain financial covenants, including requirements for the maintenance of specified levels of liabilities to net assets, debt service coverage, and current ratio.

(9) Long-term debt

A summary of long-term debt as of December 31, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Note payable due in monthly installments of \$7,737, plus interest at a fixed rate of 5.22% through January 10, 2008. See Note 8.	\$ 870,977	\$ 912,863
Note payable due in monthly installments of \$11,862, plus interest at a variable rate (4.78% at December 31, 2004) through March 7, 2006. See Note 8.	<u>1,345,873</u>	<u>1,434,250</u>
Total long-term debt	2,216,850	2,347,113
Less current installments	<u>142,581</u>	<u>139,605</u>
Long-term debt, excluding current installments	<u>\$ 2,074,269</u>	<u>\$ 2,207,508</u>

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

A summary of future maturities of long-term debt as of December 31, 2004 is as follows:

<u>Year</u>	<u>Amount</u>
2005	\$ 142,581
2006	1,299,379
2007	52,107
2008	<u>722,783</u>
	<u>\$ 2,216,850</u>

(10) Net assets

Temporarily restricted net assets as of December 31, 2004 and 2003 are available for the following purposes:

	<u>2004</u>	<u>2003</u>
Preservation of capital assets	\$ 679,334	\$ 437,263
Campaign for recovery	4,539,624	393,708
Patient assistance	158,061	154,131
Other	<u>119,142</u>	<u>95,385</u>
	<u>\$ 5,496,161</u>	<u>\$ 1,080,487</u>

Permanently restricted net assets are held in perpetuity with 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, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Olcott Foundation	\$ 505,942	\$ 482,543
Earthman Endowment	290,328	290,328
Cumberland Heights Fund	<u>74,820</u>	<u>74,820</u>
	<u>\$ 871,090</u>	<u>\$ 847,691</u>

(11) Profit-sharing plan

Eligible employees of the Foundation may participate in a 401(k) profit-sharing plan known as the Cumberland Heights 401(k) Retirement Plan (the "Plan"). Employees are generally eligible after they had reached age 20 1/2 and had been employed for six months. Prior to May 2003 and subsequent to November 2004, the Foundation matched salary deferral contributions 100% up to 3% of compensation and 50% for the next 2% of compensation. The employer match was discontinued from April 2003 through November 2004, however, employees could still make contributions. The Foundation made contributions of \$3,258 and \$30,750 to the Plan in 2004 and 2003, respectively.

(12) Advertising expenses

Advertising costs of \$140,513 and \$193,045 were expensed during 2004 and 2003, respectively.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(13) Lease commitments

The Foundation leases office space and various office equipment under operating leases. Rent expense under these leases amounted to \$220,330 and \$197,708 in 2004 and 2003, respectively.

A summary of future minimum payments under these leases as of December 31, 2004 is as follows:

<u>Year</u>	<u>Amount</u>
2005	\$ 132,577
2006	127,568
2007	73,609
2008	32,240
2009	<u>22,044</u>
	\$ <u>388,038</u>

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 2004.

(14) 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.

(15) 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.

(16) Supplemental disclosures of cash flow statement information

	<u>2004</u>	<u>2003</u>
Interest paid	\$ <u>116,966</u>	\$ <u>123,160</u>