

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

**Consolidated Financial Statements**

**December 31, 2005 and 2004**

**(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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## **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, 2005 and 2004, 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, 2005 and 2004, 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  
June 26, 2006**

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# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Consolidated Statements of Financial Position

December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
<b>Current assets:</b>		
Cash	\$ 3,237,268	\$ 2,021,615
Accounts receivable for services, less allowance for doubtful accounts of \$439,999 in 2005 and \$451,481 in 2004	2,006,586	2,103,523
Current portion of pledges receivable, less allowance of \$21,112 in 2005 and 2004	1,116,966	901,730
Other current assets	<u>135,320</u>	<u>135,888</u>
<b>Total current assets</b>	<b>6,496,140</b>	<b>5,162,756</b>
Property and equipment, net	7,063,997	6,536,615
Pledges receivable, excluding current portion	1,836,528	2,307,912
Endowment investments	712,732	704,117
Beneficial interest in perpetual trust	<u>515,573</u>	<u>506,171</u>
	<b>\$ <u>16,624,970</u></b>	<b>\$ <u>15,217,571</u></b>
<u>Liabilities and Net Assets</u>		
<b>Current liabilities:</b>		
Line of credit	\$ 50,000	\$ -
Current installments of long-term debt	228,431	142,581
Accounts payable	196,985	258,411
Accrued expenses	<u>835,915</u>	<u>614,044</u>
<b>Total current liabilities</b>	<b>1,311,331</b>	<b>1,015,036</b>
Line of credit	1,010,760	372,661
Long-term debt, excluding current installments	<u>1,871,930</u>	<u>2,074,269</u>
<b>Total liabilities</b>	<b><u>4,194,021</u></b>	<b><u>3,461,966</u></b>
<b>Net assets:</b>		
Unrestricted	4,720,196	5,388,354
Temporarily restricted	6,830,261	5,496,161
Permanently restricted	<u>880,492</u>	<u>871,090</u>
<b>Total net assets</b>	<b><u>12,430,949</u></b>	<b><u>11,755,605</u></b>
	<b>\$ <u>16,624,970</u></b>	<b>\$ <u>15,217,571</u></b>

See accompanying notes to the consolidated financial statements.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Consolidated Statements of Activities

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>Changes in unrestricted net assets:</b>		
<b>Public support and revenue:</b>		
Net patient service revenue	\$ 15,121,754	\$ 14,278,063
Contributions	97,332	91,736
Investment income	55,936	21,175
Other	<u>286,653</u>	<u>212,402</u>
<b>Total public support and revenue</b>	<b>15,561,675</b>	<b>14,603,376</b>
Satisfaction of restrictions	<u>372,717</u>	<u>686,385</u>
<b>Total unrestricted public support and revenue</b>	<b><u>15,934,392</u></b>	<b><u>15,289,761</u></b>
<b>Expenses:</b>		
<b>Program services:</b>		
Clinical services	7,356,670	6,625,861
Ancillary services	<u>3,431,329</u>	<u>3,127,333</u>
<b>Total program services</b>	<b><u>10,787,999</u></b>	<b><u>9,753,194</u></b>
<b>Supporting services:</b>		
Administrative and fiscal	4,767,624	3,837,999
Marketing and public relations	<u>944,719</u>	<u>756,622</u>
<b>Total supporting services</b>	<b><u>5,712,343</u></b>	<b><u>4,594,621</u></b>
<b>Total expenses</b>	<b><u>16,500,342</u></b>	<b><u>14,347,815</u></b>
<b>Increase (decrease) in unrestricted net assets</b>	<b><u>(565,950)</u></b>	<b><u>941,946</u></b>
<b>Changes in temporarily restricted net assets:</b>		
Contributions	1,688,788	5,100,434
Investment income	5,190	1,625
Net assets released from restrictions	<u>(372,717)</u>	<u>(686,385)</u>
<b>Increase in temporarily restricted net assets</b>	<b><u>1,321,261</u></b>	<b><u>4,415,674</u></b>
<b>Changes in permanently restricted net assets - investment income</b>	<u>8,953</u>	<u>23,399</u>
<b>Increase in net assets</b>	<b>764,264</b>	<b>5,381,019</b>
<b>Net assets at beginning of year</b>	<b>11,755,605</b>	<b>6,374,586</b>
<b>Creative Recovery Communities, Inc. unrestricted net liabilities as of October 1, 2005 (see Note 1)</b>	<b>(101,759)</b>	<b>-</b>
<b>Creative Recovery Communities, Inc. temporarily restricted net assets as of October 1, 2005 (see Note 1)</b>	<u>12,839</u>	<u>-</u>
<b>Net assets at end of year</b>	<b><u>\$ 12,430,949</u></b>	<b><u>\$ 11,755,605</u></b>

See accompanying notes to the consolidated financial statements.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Consolidated Statements of Cash Flows

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ <u>764,264</u>	\$ <u>5,381,019</u>
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation and amortization	669,761	552,744
Provision for doubtful accounts	632,241	675,341
Net gain on investments	(35,626)	(31,119)
(Increase) decrease in operating assets, net of effects of affiliate consolidation (see Note 1):		
Accounts receivable for services	(513,013)	(731,664)
Pledges receivable	256,148	(2,787,527)
Other current assets	5,383	921
Increase (decrease) in operating liabilities, net of effects of affiliate consolidation (see Note 1):		
Accounts payable	(176,339)	(5,214)
Accrued expenses	<u>221,871</u>	<u>(7,051)</u>
Total adjustments	<u>1,060,426</u>	<u>(2,333,569)</u>
Net cash provided by operating activities	<u>1,824,690</u>	<u>3,047,450</u>
<b>Cash flows from investing activities, net of effects of affiliate consolidation (see Note 1):</b>		
Purchases of property and equipment	(1,191,202)	(1,107,758)
Proceeds from sale of investments	21,343	-
Purchases of investments	(3,734)	(2,970)
Cash assumed from Creative Recovery Communities, Inc. as of October 1, 2005 (see Note 1)	<u>42,946</u>	<u>-</u>
Net cash used by investing activities	<u>(1,130,647)</u>	<u>(1,110,728)</u>
<b>Cash flows from financing activities, net of effects of affiliate consolidation (see Note 1):</b>		
Proceeds from (repayments of) line of credit, net	638,099	(465,219)
Payments on long-term debt	<u>(116,489)</u>	<u>(130,262)</u>
Net cash provided (used) by financing activities	<u>521,610</u>	<u>(595,481)</u>
Increase in cash	1,215,653	1,341,241
Cash at beginning of year	<u>2,021,615</u>	<u>680,374</u>
Cash at end of year	<u>\$ 3,237,268</u>	<u>\$ 2,021,615</u>

See accompanying notes to the consolidated financial statements.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

### (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.

CRC became an affiliate of Cumberland Heights Foundation, Inc. effective October 1, 2005 as a result of the execution of an Agreement for Consolidation and Joint Operation. As such, these consolidated financial statements include the operating results of CRC from October 1, 2005 through December 31, 2005. The assets and liabilities assumed as a result of the transaction are as follows:

Cash	\$	42,946
Accounts receivable		22,291
Other current assets		4,815
Equipment, net		5,941
Accounts payable		(114,913)
Line of credit		<u>(50,000)</u>
Net liabilities as of October 1, 2005	\$	<u>(88,920)</u>

### (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 Affiliates. All significant intercompany accounts and transactions have been eliminated.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

(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.

(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.



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

## **Notes to the Consolidated Financial Statements**

**December 31, 2005 and 2004**

**(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 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.

**(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.

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.

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.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

(i) Capitalization of interest costs

Interest cost is capitalized when incurred to finance the cost of qualifying assets. Interest costs of \$62,000 was capitalized during the year ended December 31, 2005. No interest costs were capitalized during the year ended December 31, 2004.

(j) 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.

(k) 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.

(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, 2005 and 2004, is as follows:

	<u>2005</u>	<u>2004</u>
Private insurance	44 %	43 %
Individuals	30	31
Blue Cross	18	20
TennCare	<u>8</u>	<u>6</u>
	<u>100 %</u>	<u>100 %</u>

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

### (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 4.75% and 4.00% at December 31, 2005 and 2004, respectively, was 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>2005</u>	<u>2004</u>
Receivable in less than one year	\$ 1,138,078	\$ 922,842
Receivable in one to five years	<u>2,148,146</u>	<u>2,651,530</u>
	3,286,224	3,574,372
Less allowance for uncollectible pledges	21,112	21,112
Less discount	<u>311,618</u>	<u>343,618</u>
	<u>\$ 2,953,494</u>	<u>\$ 3,209,642</u>

### (5) Endowment investments

A summary of the fair value of the endowment investments as of December 31, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Cash	\$ 4,760	\$ 60,269
Mutual funds	<u>707,972</u>	<u>643,848</u>
	<u>\$ 712,732</u>	<u>\$ 704,117</u>

### (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 \$515,573 and \$506,171 at December 31, 2005 and 2004, respectively, and is included in permanently restricted net assets in the accompanying consolidated financial statements.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

### (7) Investment income

The following schedule summarizes the investment income (loss) in the consolidated statements of activities for 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Interest and dividend income	\$ 44,952	\$ 26,611
Net gain on investments	35,626	31,119
Fees paid	<u>(10,499)</u>	<u>(11,531)</u>
	<u>\$ 70,079</u>	<u>\$ 46,199</u>

### (8) Property and equipment

A summary of property and equipment as of December 31, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Land	\$ 348,442	\$ 348,442
Buildings and improvements	8,800,599	7,522,712
Machinery and equipment	2,097,556	1,742,333
Transportation equipment	109,596	109,596
Furniture and fixtures	557,380	412,631
Construction in progress	<u>668,035</u>	<u>1,239,959</u>
	12,581,608	11,375,673
Accumulated depreciation and amortization	<u>(5,517,611)</u>	<u>(4,839,058)</u>
	<u>\$ 7,063,997</u>	<u>\$ 6,536,615</u>

Interest cost of \$62,000 was capitalized as property and equipment during 2005.

### (9) Lines of credit

The Foundation has a \$1,250,000 revolving line of credit available with a bank which expired on June 1, 2006, but was subsequently extended to June 1, 2007. The revolving line of credit bears interest at the bank's index rate (7.25% at December 31, 2005) and is secured by real and personal property and accounts receivable. The Foundation owed \$1,010,760 and \$372,661 on the line of credit at December 31, 2005 and 2004, respectively.

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 levels of debt service coverage and current ratio.

CRC has a \$50,000 revolving line of credit available with a bank which is due on demand. The revolving line of credit bears interest at the bank's index rate plus 1.00% (8.25% at December 31, 2005) and is secured by real and personal property. CRC owed \$50,000 on the line of credit at December 31, 2005.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

### (10) Long-term debt

A summary of long-term debt as of December 31, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</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 9.	\$ 822,630	\$ 870,977
Note payable due in monthly installments of \$11,862, plus interest at a variable rate (6.79% at December 31, 2005) through March 7, 2006. This note payable was subsequently extended to June 10, 2008. See Note 9.	<u>1,277,731</u>	<u>1,345,873</u>
Total long-term debt	2,100,361	2,216,850
Less current installments	<u>228,431</u>	<u>142,581</u>
Long-term debt, excluding current installments	<u>\$ 1,871,930</u>	<u>\$ 2,074,269</u>

A summary of future maturities of long-term debt as of December 31, 2005 is as follows:

<u>Year</u>	<u>Amount</u>
2006	\$ 228,431
2007	1,050,298
2008	<u>821,632</u>
	<u>\$ 2,100,361</u>

### (11) Net assets

Temporarily restricted net assets as of December 31, 2005 and 2004 are available for the following purposes:

	<u>2005</u>	<u>2004</u>
Preservation of capital assets	\$ 763,919	\$ 679,334
Campaign for recovery	5,695,788	4,539,624
Patient assistance	185,015	158,061
Other	<u>185,539</u>	<u>119,142</u>
	<u>\$ 6,830,261</u>	<u>\$ 5,496,161</u>

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

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, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Olcott Foundation	\$ 515,344	\$ 505,942
Earthman Endowment	290,328	290,328
Cumberland Heights Fund	<u>74,820</u>	<u>74,820</u>
	<u>\$ 880,492</u>	<u>\$ 871,090</u>

### (12) Natural classification of expenses

A summary of the natural classification of expenses for the years ended December 31, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Salaries and temporary labor	\$ 9,878,123	\$ 8,403,052
Contract services	1,365,671	1,238,562
Provision for doubtful accounts	632,241	675,341
Depreciation and amortization	669,761	552,744
Interest	110,483	122,336
General insurance	571,984	493,305
Utilities	411,936	342,570
Food service	513,437	501,362
Supplies	422,624	434,859
Other	<u>1,924,082</u>	<u>1,583,684</u>
	<u>\$ 16,500,342</u>	<u>\$ 14,347,815</u>

### (13) 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 reach age 20 1/2 and are employed for six months. The employer match was discontinued from April 2003 through November 2004; however, employees could still make contributions. 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 Foundation made contributions of \$164,217 and \$3,258 to the Plan in 2005 and 2004, respectively.

### (14) Advertising expenses

Advertising costs of \$266,188 and \$140,512 were expensed during 2005 and 2004, respectively.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

### (15) Lease commitments

The Foundation leases office space and various office equipment under operating leases. Rent expense under these leases amounted to \$254,799 and \$220,381 in 2005 and 2004, respectively.

A summary of future minimum payments under these leases as of December 31, 2005 is as follows:

<u>Year</u>	<u>Amount</u>
2006	\$ 300,698
2007	235,309
2008	136,170
2009	98,615
2010	58,707
2011 and later years	<u>8,412</u>
	<u>\$ 837,911</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 commitment for 2006.

### (16) 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.

### (17) 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.

### (18) Supplemental disclosures of cash flow statement information

	<u>2005</u>	<u>2004</u>
Interest paid, net of capitalized interest of \$62,000 in 2005	\$ <u>109,966</u>	\$ <u>116,966</u>

CRC became an affiliate of Cumberland Heights Foundation, Inc. effective October 1, 2005 as a result of the execution of an Agreement for Consolidation and Joint Operation. As a result of this transaction, the Foundation assumed certain assets and liabilities (see Note 1).

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

**Notes to the Consolidated Financial Statements**

**December 31, 2005 and 2004**

**(19) Subsequent event**

**In February 2006, the Foundation entered into a contract agreement for certain renovations and new construction projects. The guaranteed maximum price for this work is approximately \$9,500,000.**