

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

Consolidated Financial Statements and Schedules

December 31, 2008 and 2007

(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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LATTIMORE BLACK MORGAN & CAIN, PC
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, 2008 and 2007, 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, 2008 and 2007, 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
June 9, 2009

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Consolidated Statements of Financial Position

December 31, 2008 and 2007

	<u>Assets</u>	
	<u>2008</u>	<u>2007</u>
Current assets:		
Cash	\$ 1,534,514	\$ 1,200,657
Accounts receivable for services, less allowance for doubtful accounts of \$368,723 in 2008 and \$499,071 in 2007	2,273,103	2,539,553
Current portion of pledges receivable, less allowance for uncollectible pledges of \$102,184 in 2008 and \$95,000 in 2007	746,490	876,462
Other current assets	<u>153,072</u>	<u>133,971</u>
Total current assets	4,707,179	4,750,643
Property and equipment, net	16,567,265	17,116,550
Pledges receivable, excluding current portion	402,163	1,030,769
Investments	771,810	918,272
Beneficial interest in perpetual trust	436,863	561,352
Restricted cash	<u>4,457,301</u>	<u>4,261,954</u>
	\$ <u>27,342,581</u>	\$ <u>28,639,540</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Line of credit	\$ -	\$ 420,915
Current installments of long-term debt	2,991,000	-
Accounts payable	246,397	490,012
Accrued expenses	<u>1,009,073</u>	<u>941,998</u>
Total current liabilities	4,246,470	1,852,925
Long-term debt, excluding current installments	7,000,000	9,991,000
Fair market value of interest rate swap agreement	<u>748,869</u>	<u>325,603</u>
Total liabilities	<u>11,995,339</u>	<u>12,169,528</u>
Net assets:		
Unrestricted	11,745,637	13,298,146
Temporarily restricted	2,986,900	2,396,861
Permanently restricted	<u>614,705</u>	<u>775,005</u>
Total net assets	<u>15,347,242</u>	<u>16,470,012</u>
	\$ <u>27,342,581</u>	\$ <u>28,639,540</u>

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Consolidated Statements of Activities

Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Changes in unrestricted net assets:		
Public support and revenue:		
Net patient service revenue	\$ 20,959,455	\$ 19,341,353
Contributions	45,223	57,033
Investment income (loss)	(62,613)	74,430
Other	<u>446,760</u>	<u>499,560</u>
Total public support and revenue	21,388,825	19,972,376
Satisfaction of restrictions	<u>198,384</u>	<u>2,711,401</u>
Total unrestricted public support and revenue	<u>21,587,209</u>	<u>22,683,777</u>
Expenses:		
Program services:		
Clinical services	10,653,511	8,920,282
Ancillary services	<u>4,750,971</u>	<u>3,959,445</u>
Total program services	15,404,482	12,879,727
Supporting services:		
Administrative and fiscal	5,690,057	5,278,129
Marketing and public relations	<u>1,621,912</u>	<u>1,495,305</u>
Total supporting services	7,311,969	6,773,434
Loss on interest rate swap	<u>423,267</u>	<u>325,603</u>
Total expenses	<u>23,139,718</u>	<u>19,978,764</u>
Increase (decrease) in unrestricted net assets	<u>(1,552,509)</u>	<u>2,705,013</u>
Changes in temporarily restricted net assets:		
Contributions	804,751	2,028,509
Investment income (loss)	(44,290)	18,403
Net assets released from restrictions	<u>(170,422)</u>	<u>(2,711,401)</u>
Increase (decrease) in temporarily restricted net assets	<u>590,039</u>	<u>(664,489)</u>
Changes in permanently restricted net assets:		
Investment income (loss), net	(132,338)	6,976
Net assets reclassified to temporarily restricted or unrestricted	<u>(27,962)</u>	<u>-</u>
Increase (decrease) in permanently restricted net assets	<u>(160,300)</u>	<u>6,976</u>
Increase (decrease) in net assets	(1,122,770)	2,047,500
Net assets at beginning of year	<u>16,470,012</u>	<u>14,422,512</u>
Net assets at end of year	<u>\$ 15,347,242</u>	<u>\$ 16,470,012</u>

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,122,770)	\$ 2,047,500
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation and amortization	1,207,384	875,242
Provision for doubtful accounts	856,300	757,694
Provision for uncollectible pledges	7,184	164,155
Loss on disposal of equipment	972	-
Discount on pledges receivable	(67,372)	(92,668)
Net (gain) loss on investments	376,139	(37,071)
Loss on interest rate swap agreement	423,267	325,603
(Increase) decrease in operating assets:		
Accounts receivable for services	(589,850)	(796,243)
Pledges receivable	818,766	616,228
Other current assets	(19,102)	(23,321)
Increase (decrease) in operating liabilities:		
Accounts payable	(243,615)	(690,972)
Accrued expenses	67,075	188,103
Total adjustments	<u>2,837,148</u>	<u>1,286,750</u>
Net cash provided by operating activities	<u>1,714,378</u>	<u>3,334,250</u>
Cash flows from investing activities:		
Proceeds from disposal of property and equipment	960	-
Purchases of property and equipment	(660,031)	(5,795,363)
Proceeds from sale of investments	56,759	65,049
Purchases of investments, net	(161,947)	(144,871)
Change in restricted cash	<u>(195,347)</u>	<u>(4,261,954)</u>
Net cash used by investing activities	<u>(959,606)</u>	<u>(10,137,139)</u>
Cash flows from financing activities:		
Repayments on line of credit, net	(420,915)	(50,670)
Payments on long-term debt	-	(7,757,539)
Proceeds from long-term debt	<u>-</u>	<u>15,187,999</u>
Net cash provided (used) by financing activities	<u>(420,915)</u>	<u>7,379,790</u>
Increase in cash	333,857	576,901
Cash at beginning of year	<u>1,200,657</u>	<u>623,756</u>
Cash at end of year	<u>\$ 1,534,514</u>	<u>\$ 1,200,657</u>

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

(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. During 2008, management made the decision to close the operations of Creative Recovery Communities, Inc. However, Creative Recovery Communities, Inc. still exists as a legal entity for business purposes.

(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.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

(c) Restricted cash

Restricted cash of \$4,457,301 and \$4,261,954 at December 31, 2008 and 2007, respectively, consists of undisbursed loan proceeds and capital campaign contributions which are restricted for future construction projects or debt service.

(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.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

(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 as follows:

	<u>Years</u>
Transportation equipment	5
Furniture and fixtures	3 - 7
Machinery and equipment	3 - 10
Buildings and improvements	3 - 40

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.

(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 \$6,262,411 and \$5,998,566 in 2008 and 2007, 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 was \$855,138 and \$685,586 in 2008 and 2007, respectively.

Revenue from tuition for CRC was recorded at the beginning of each month when the student enrolled.

Cash contributions are recognized as revenue when received.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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 \$211,500 were capitalized during the year ended December 31, 2007. There were no interest costs capitalized during the year ended December 31, 2008. 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.

(l) Fair value of interest rate swap agreement

The Foundation uses 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.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

(n) Fund raising costs

For the years ended December 31, 2008 and 2007, expenses totaling \$441,004 and \$562,725 respectively, were associated with fundraising and are classified in the consolidated statement of activities under marketing and public relations.

(o) Reclassifications

Certain reclassifications have been made to the 2007 consolidated financial statements in order for them to conform to the 2008 presentation. These reclassifications had no effect on net assets or changes in net assets as previously reported.

(p) New accounting pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 ("FIN 48")*, which clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 was effective for fiscal years beginning after December 15, 2006; however, the FASB delayed the effective date for nonpublic companies to periods beginning after December 15, 2007. On December 30, 2008, the FASB issued Staff Position No. 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Entities ("FSP 48-3")* which allows certain nonpublic entities to defer implementation of FIN 48 to fiscal years beginning after December 15, 2008. Management has elected to adopt FSP 48-3 and defer implementation of FIN 48. As a result, the Foundation has accounted for uncertain tax positions in accordance with FASB Statements No. 109, *Accounting for Income Taxes* and No. 5, *Accounting for Contingencies* in the accompanying consolidated financial statements.

On August 8, 2008, the Staff of the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 117-1 *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds ("FSP 117-1")*. The Uniform Prudent Management Institutional Funds Act was enacted in Tennessee effective July 1, 2007. It also requires disclosure of a description of the governing board's interpretation of the law that underlies the organization's net asset classification of donor-restricted endowment funds, a description of the organization's policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the Foundation's endowment investment policies and additional disclosures not presently required. The provisions of the FSP are effective for fiscal years ending after December 15, 2008 and did not have a significant effect on the Foundation's financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

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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, 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 adoption of SFAS 157 for financial assets and liabilities in 2008 did not have a significant effect on the Foundation's financial statements.

The Foundation has assets containing both Level 1 Inputs and Level 2 Inputs, as defined by SFAS 157, for the years ended December 31, 2008 and 2007. The investments are considered to be assets whose fair value measurements contain Level 1 inputs, unadjusted-quoted market prices. The interest rate swap is considered to be an instrument whose fair value measurements contain Level 2 Inputs. Level 2 Inputs include inputs other than quoted market prices, included in Level 1, that are observable for the asset or liability, either directly or indirectly.

(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

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The Foundation provides rehabilitation treatment for individuals with alcohol and other chemical dependencies under various payor programs. Accordingly, the concentration of accounts receivable and revenue from Blue Cross/Magellan, TennCare, private insurance companies, and individuals and for the years ended December 31, 2008 and 2007, is as follows:

	<u>2008</u>		<u>2007</u>	
	<u>AR</u>	<u>Revenue</u>	<u>AR</u>	<u>Revenue</u>
Other private insurance	40 %	36 %	44 %	35 %
Individuals	25	22	30	22
Blue Cross/Magellan	35	42	18	40
TennCare	-	-	8	3
	<u>100 %</u>	<u>100 %</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>2008</u>	<u>2007</u>
Receivable in less than one year	\$ 848,674	\$ 971,462
Receivable in one to five years	<u>469,359</u>	<u>1,165,337</u>
	1,318,033	2,136,799
Less allowance for uncollectible pledges	102,184	95,000
Less discount	<u>67,196</u>	<u>134,568</u>
	<u>\$ 1,148,653</u>	<u>\$ 1,907,231</u>

(5) Investments

A summary of the fair value of investments as of December 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Cash	\$ 140,303	\$ 41,720
Mutual funds	<u>631,507</u>	<u>876,552</u>
	<u>\$ 771,810</u>	<u>\$ 918,272</u>

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

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(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 \$436,863 and \$561,352 at December 31, 2008 and 2007, 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 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 146,526	\$ 71,449
Net gain (loss) on investments	(376,139)	37,071
Fees paid	<u>(9,628)</u>	<u>(8,711)</u>
	<u>\$ (239,241)</u>	<u>\$ 99,809</u>

(8) Property and equipment

A summary of property and equipment as of December 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Land	\$ 348,442	\$ 348,442
Buildings and improvements	20,951,718	20,467,966
Machinery and equipment	2,638,012	2,480,522
Transportation equipment	99,733	109,596
Furniture and fixtures	989,798	763,766
Construction in progress	<u>15,102</u>	<u>224,786</u>
	25,042,805	24,395,078
Accumulated depreciation	<u>(8,475,540)</u>	<u>(7,278,528)</u>
	<u>\$ 16,567,265</u>	<u>\$ 17,116,550</u>

(9) Line of credit

The Foundation has a \$1,250,000 revolving line of credit available with a bank which expires on June 1, 2009. The revolving line of credit bears interest at the bank's index rate (3.25% at December 31, 2008) and is secured by real and personal property and accounts receivable. The outstanding balance on the line of credit was \$420,915 at December 31, 2007. There was no outstanding balance at December 31, 2008.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

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December 31, 2008 and 2007

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, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Note payable due in scheduled installments as noted below, including interest at a variable rate (2.0765% at December 31, 2008) through April 18, 2017.	\$ 9,991,000	\$ 9,991,000
Less current installments	<u>2,991,000</u>	<u>-</u>
Long-term debt, excluding current installments	<u>\$ 7,000,000</u>	<u>\$ 9,991,000</u>

A summary of future maturities of long-term debt as of December 31, 2008 is as follows:

<u>Year</u>	<u>Amount</u>
2009	\$ 2,991,000
2010	1,500,000
2011	1,086,385
2012	103,661
2013	103,661
2014 and later years	<u>4,206,293</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. A principal payment was made, as required, to reduce the outstanding principal balance to \$7,000,000 as of February 15, 2009. Additional principal payments will be required, as necessary, to reduce the outstanding principal balance to \$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

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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. At December 31, 2008, the Foundation was in compliance with the debt service coverage ratio. Restricted cash includes undisbursed proceeds from the note payable of \$1,852,813 and \$2,670,046 at December 31, 2008 and 2007, respectively, which 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, 2008 and 2007, the fair value of the agreement was \$748,869 and \$325,603, respectively, and 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 \$423,266 and \$325,603 during the years ended December 31, 2008 and 2007, respectively, is reported as expense in the consolidated statements of activities.

(12) Net assets

Temporarily restricted net assets as of December 31, 2008 and 2007 are available for the following purposes:

	<u>2008</u>	<u>2007</u>
Preservation of capital assets	\$ 1,215,493	\$ 1,034,056
Patient assistance	627,184	435,894
Other	<u>1,144,223</u>	<u>926,911</u>
	<u>\$ 2,986,900</u>	<u>\$ 2,396,861</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, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Olcott Foundation	\$ 436,863	\$ 561,352
Earthman Endowment	<u>177,843</u>	<u>213,653</u>
	<u>\$ 614,706</u>	<u>\$ 775,005</u>

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

During 2008, certain permanently restricted net assets were reclassified to temporarily restricted net assets or unrestricted net assets. These transfers are reflected in net assets released to temporarily restricted or unrestricted net assets in the accompanying statement of activities.

The endowment funds are primarily invested in equity and fixed income securities. As determined by the restrictions imposed by the donors and the guidelines established by the endowment committee, the permanently restricted endowment is generally expended at a rate between 3% and 5% of the calendar year end principal balance.

(13) Natural classification of expenses

A summary of the natural classification of expenses for the years ended December 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Salaries and temporary labor	\$ 13,747,913	\$ 12,402,830
Contract services	1,366,982	1,162,577
Provision for doubtful accounts	856,300	757,694
Depreciation and amortization	1,207,384	875,242
Interest, including swap agreement	914,549	22,219
General insurance	484,150	459,200
Utilities	622,064	518,470
Food service	736,741	636,692
Supplies	614,549	575,530
Other	<u>2,589,086</u>	<u>2,568,310</u>
	<u>\$ 23,139,718</u>	<u>\$ 19,978,764</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 \$191,969 and \$150,765 to the Plan in 2008 and 2007, respectively.

(15) Advertising expenses

Advertising costs of \$536,311 and \$441,495 were expensed during 2008 and 2007, respectively.

(16) Lease commitments

The Foundation leases office space and various office equipment under operating leases. Rent expense under these leases amounted to \$426,337 and \$482,708 in 2008 and 2007, respectively.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

A summary of future minimum payments under these leases as of December 31, 2008 is as follows:

<u>Year</u>	<u>Amount</u>
2009	\$ 341,742
2010	202,804
2011	99,408
2012	52,953
2013	<u>31,632</u>
	<u>\$ 728,539</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 2008.

(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>2008</u>	<u>2007</u>
Interest paid, net of capitalized interest of \$353,951 in 2007	\$ <u>491,282</u>	\$ <u>107,833</u>

(20) Subsequent event

In May 2009, the Foundation entered into a sales agreement with a non-related third party to sell the property located at Thompson Lane in Nashville, Tennessee for a fixed price of \$750,000. A net gain is anticipated to result from this transaction.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Consolidating Statement of Financial Position

December 31, 2008

Assets	Cumberland Heights Foundation, Inc.	Cumberland Heights Professional Associates, Inc.	Creative Recovery Communities, Inc.	Eliminating Entries		Consolidated
				Debit	Credit	
Current assets:						
Cash	\$ 1,427,175	\$ 38,093	\$ 69,246	-	-	\$ 1,534,514
Accounts receivable for services, net	2,151,646	121,457	-	-	-	2,273,103
Receivable from related parties	738,894	-	-	(a)	738,894	-
Current portion of pledges receivable, net	746,490	-	-	-	-	746,490
Other current assets	153,072	-	-	-	-	153,072
Total current assets	5,217,277	159,550	69,246	-	738,894	4,707,179
Property and equipment, net	16,561,583	-	5,682	-	-	16,567,265
Pledges receivable, excluding current portion	402,163	-	-	-	-	402,163
Endowment investments	771,810	-	-	-	-	771,810
Beneficial interest in perpetual trust	436,863	-	-	-	-	436,863
Restricted cash	4,457,301	-	-	-	-	4,457,301
Total assets	\$ 27,846,997	\$ 159,550	\$ 74,928	-	\$ 738,894	\$ 27,342,581
Liabilities and Net Assets (Deficit)						
Current liabilities:						
Line of credit	\$ -	\$ -	\$ -	-	-	-
Current portion of long term debt	2,991,000	-	-	-	-	2,991,000
Payable to related parties	-	738,894	-	738,894	-	-
Accounts payable	227,014	19,383	-	-	-	246,397
Accrued expenses	974,463	34,610	-	-	-	1,009,073
Total current liabilities	4,192,477	792,887	-	738,894	-	4,246,470
Long term debt, excluding current installments	7,000,000	-	-	-	-	7,000,000
Fair market value of interest rate swap	748,869	-	-	-	-	748,869
Total liabilities	11,941,346	792,887	-	738,894	-	11,995,339
Net assets						
Unrestricted	12,489,160	(633,337)	(110,186)	-	-	11,745,637
Temporarily restricted	2,801,786	-	185,114	-	-	2,986,900
Permanently restricted	614,705	-	-	-	-	614,705
Total net assets (deficit)	15,905,651	(633,337)	74,928	-	-	15,347,242
	\$ 27,846,997	\$ 159,550	\$ 74,928	\$ 738,894	\$ -	\$ 27,342,581

(a) To eliminate intercompany receivables and payables.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Consolidating Statement of Activities

Year ended December 31, 2008

	Cumberland Heights Foundation, Inc.	Cumberland Heights Professional Associates, Inc.	Creative Recovery Communities, Inc.	Eliminating Entries		Consolidated
				Debit	Credit	
Changes in unrestricted net assets:						
Public support & revenue	\$ 20,350,534	\$ 608,921	\$ -	\$ -	\$ -	\$ 20,959,455
Net patient service revenue	21,964	-	23,259	-	-	45,223
Contributions	(62,613)	-	-	-	-	(62,613)
Investment income/(loss)	334,475	99,484	112,285	99,484	-	446,760
Other			(a)			
Total public support and revenue	20,644,360	708,405	135,544	99,484	-	21,388,825
Satisfaction of restrictions	164,448	-	33,936	-	-	198,384
Total unrestricted public support and revenue	20,808,808	708,405	169,480	99,484	-	21,587,209
Expenses:						
Program services:						
Clinical services	9,556,681	800,870	295,960	-	-	10,653,511
Ancillary services	4,717,035	-	33,936	-	-	4,750,971
Total program services	14,273,716	800,870	329,896	-	-	15,404,482
Supporting services:						
Administrative and fiscal	5,710,045	65,420	14,076	-	99,484	5,690,057
Marketing and public relations	1,619,023	-	2,889	-	-	1,621,912
Total supporting services	7,329,068	65,420	16,965	-	99,484	7,311,969
Loss on interest rate swap	423,267	-	-	-	-	423,267
Total expenses	22,026,051	866,290	346,861	-	99,484	23,139,718
Increase (decrease) in unrestricted net assets (deficit)	(1,217,243)	(157,885)	(177,381)	99,484	99,484	(1,552,509)
Changes in temporarily restricted net assets:						
Contributions	802,751	-	2,000	-	-	804,751
Investment income/(loss)	(44,290)	-	-	-	-	(44,290)
Net assets released from restrictions	(136,486)	-	(33,936)	-	-	(170,422)
Increase (decrease) in temporarily restricted net assets (deficit)	621,975	-	(31,936)	-	-	590,039
Changes in permanently restricted net assets						
Investment income/(loss)	(132,338)	-	-	-	-	(132,338)
Net assets reclassified to temporary restrictions or unrestricted	(27,962)	-	-	-	-	(27,962)
Increase (decrease) in permanently restricted net assets (deficit)	(160,300)	-	-	-	-	(160,300)
Increase (decrease) in net assets (deficit)	(755,568)	(157,885)	(209,317)	99,484	99,484	(1,122,770)
Net assets (deficit) at the beginning of the year	17,326,497	(475,452)	(381,033)	-	-	16,470,012
Capital contribution to Creative Recovery Communities, Inc.	(665,276)	-	665,276	-	-	-
Net assets (deficit) at the end of the year	\$ 15,905,653	\$ (633,337)	\$ 74,926	\$ 99,484	\$ 99,484	\$ 15,347,242

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