

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

Consolidated Financial Statements and Schedules

December 31, 2009 and 2008

(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, 2009 and 2008, 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, 2009 and 2008, 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
May 19, 2010

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Consolidated Statements of Financial Position

December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 2,264,638	\$ 1,534,514
Accounts receivable for services, less allowance for doubtful accounts of \$519,313 in 2009 and \$368,723 in 2008	2,978,333	2,273,103
Current portion of pledges receivable, less allowance for uncollectible pledges of \$210,400 in 2009 and \$102,184 in 2008	266,136	746,490
Other current assets	<u>167,451</u>	<u>153,072</u>
Total current assets	5,676,558	4,707,179
Property and equipment, net	15,476,175	16,567,265
Pledges receivable, excluding current portion	224,370	402,163
Investments	985,954	771,810
Beneficial interest in perpetual trust	505,574	436,863
Restricted cash	<u>2,218,136</u>	<u>4,457,301</u>
	<u>\$ 25,086,767</u>	<u>\$ 27,342,581</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Current installments of long-term debt	\$ 1,500,000	\$ 2,991,000
Accounts payable	327,528	246,397
Accrued expenses	<u>898,159</u>	<u>1,009,073</u>
Total current liabilities	2,725,687	4,246,470
Long-term debt, excluding current installments	5,500,000	7,000,000
Fair value of interest rate swap agreement	<u>422,219</u>	<u>748,869</u>
Total liabilities	<u>8,647,906</u>	<u>11,995,339</u>
Net assets:		
Unrestricted	12,453,193	11,745,637
Temporarily restricted	3,302,251	2,986,900
Permanently restricted	<u>683,417</u>	<u>614,705</u>
Total net assets	<u>16,438,861</u>	<u>15,347,242</u>
	<u>\$ 25,086,767</u>	<u>\$ 27,342,581</u>

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Consolidated Statements of Activities

Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Changes in unrestricted net assets:		
Public support and revenue:		
Net, patient service revenue	\$ 22,384,420	\$ 20,959,455
Contributions	167,642	45,223
Investment income (loss)	54,864	(62,613)
Gain on sale of property and equipment	433,200	-
Other	<u>322,525</u>	<u>446,760</u>
Total public support and revenue	23,362,651	21,388,825
Satisfaction of restrictions	<u>449,745</u>	<u>198,384</u>
Total unrestricted public support and revenue	<u>23,812,396</u>	<u>21,587,209</u>
Expenses:		
Program services:		
Clinical services	10,952,112	10,653,511
Ancillary services	<u>4,411,124</u>	<u>4,750,971</u>
Total program services	15,363,236	15,404,482
Supporting services:		
Administrative and fiscal	5,709,787	5,690,057
Marketing and public relations	<u>2,358,467</u>	<u>1,621,912</u>
Total supporting services	8,068,254	7,311,969
(Gain) loss on interest rate swap agreement	<u>(326,650)</u>	<u>423,267</u>
Total expenses	<u>23,104,840</u>	<u>23,139,718</u>
Increase (decrease) in unrestricted net assets	<u>707,556</u>	<u>(1,552,509)</u>
Changes in temporarily restricted net assets:		
Contributions	651,450	804,751
Investment income (loss), net	113,646	(44,290)
Net assets released from restrictions	<u>(449,745)</u>	<u>(170,422)</u>
Increase (decrease) in temporarily restricted net assets	<u>315,351</u>	<u>590,039</u>
Changes in permanently restricted net assets:		
Investment income (loss), net	68,712	(132,338)
Net assets reclassified to temporarily restricted or unrestricted	<u>-</u>	<u>(27,962)</u>
Increase (decrease) in permanently restricted net assets	<u>68,712</u>	<u>(160,300)</u>
Increase (decrease) in net assets	1,091,619	(1,122,770)
Net assets at beginning of year	<u>15,347,242</u>	<u>16,470,012</u>
Net assets at end of year	<u>\$ 16,438,861</u>	<u>\$ 15,347,242</u>

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,091,619	\$ (1,122,770)
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation and amortization	1,121,627	1,207,384
Provision for doubtful accounts	676,082	856,300
Provision for uncollectible pledges	108,216	7,184
(Gain) loss on sale of property and equipment	(433,200)	972
Discount on pledges receivable	(37,478)	(67,372)
Net (gain) loss on investments	(216,807)	376,139
(Gain) loss on interest rate swap agreement	(326,650)	423,267
(Increase) decrease in operating assets:		
Accounts receivable for services	(1,381,312)	(589,850)
Pledges receivable	587,409	818,766
Other current assets	(14,379)	(19,102)
Increase (decrease) in operating liabilities:		
Accounts payable	81,131	(243,615)
Accrued expenses	<u>(110,914)</u>	<u>67,075</u>
Total adjustments	<u>53,725</u>	<u>2,837,148</u>
Net cash provided by operating activities	<u>1,145,344</u>	<u>1,714,378</u>
Cash flows from investing activities:		
Proceeds from disposal of property and equipment	715,856	960
Purchases of property and equipment	(313,193)	(660,031)
Proceeds from sale of investments	37,680	56,759
Purchases of investments, net	(103,728)	(161,947)
Change in restricted cash	<u>2,239,165</u>	<u>(195,347)</u>
Net cash provided (used) by investing activities	<u>2,575,780</u>	<u>(959,606)</u>
Cash flows from financing activities -		
Repayments on long-term debt	<u>(2,991,000)</u>	<u>(420,915)</u>
Increase in cash	730,124	333,857
Cash at beginning of year	<u>1,534,514</u>	<u>1,200,657</u>
Cash at end of year	\$ <u>2,264,638</u>	\$ <u>1,534,514</u>

See accompanying notes to the consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

(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 was formed to provide 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) Accounting Codification

On June 29, 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("Codification" or "ASC") No. 105, *Generally Accepted Accounting Principles* ("ASC 105"). ASC 105 establishes the Codification as the sole source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). Existing GAAP was not intended to be changed as a result of the Codification, and accordingly the change did not impact the consolidated financial statements. The Codification does change the way the guidance is organized and presented.

(b) 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, 2009 and 2008

(c) 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.

(d) Restricted cash

Restricted cash of \$2,218,136 and \$4,457,301 at December 31, 2009 and 2008, respectively, consists of undisbursed loan proceeds and capital campaign contributions which are restricted for future construction projects or debt service.

(e) 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.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

(f) 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.

(g) 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.

(h) 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.

The Foundation changed its method of accounting for uncertainty in income taxes as of January 1, 2009 as a result of adopting new principles required by GAAP. Using the new accounting, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The change had no material effect on the Foundation's consolidated financial statements.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

As of December 31, 2009, the Foundation has accrued no interest and no penalties related to uncertain tax positions. It is the Foundation's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Foundation and its affiliates file separate U.S. Federal information tax returns. The Organization is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2006 through December 31, 2009.

(i) 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 \$7,456,978 and \$6,449,102 in 2009 and 2008, 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 \$842,622 and \$855,138 in 2009 and 2008, 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.

Pledges receivable which 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.

(j) Advertising and promotion costs

Advertising and promotion costs are expensed as incurred.

(k) Long-lived assets

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

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

(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.

(n) Fund raising costs

For the years ended December 31, 2009 and 2008, expenses totaling \$445,084 and \$441,004 respectively, were associated with fundraising and are classified in the consolidated statement of activities under marketing and public relations.

(o) Events occurring after reporting date

The Foundation has evaluated events and transactions that occurred between December 31, 2009 and May 19, 2010 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements. No such events or transactions were noted requiring recognition or disclosure in the financial statements.

(3) Credit risk and other concentrations

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

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

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

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, private insurance companies, and individuals as of and for the years ended December 31, 2009 and 2008, is as follows:

	<u>2009</u>		<u>2008</u>	
	<u>AR</u>	<u>Revenue</u>	<u>AR</u>	<u>Revenue</u>
Other private insurance	36 %	34 %	40 %	36 %
Individuals	28	21	25	22
Blue Cross/Magellan	<u>36</u>	<u>45</u>	<u>35</u>	<u>42</u>
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

(4) Assets and liabilities measured at fair value

On January 1, 2009, the Foundation adopted components of the accounting standards for fair value, which define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements for both financial and non-financial assets and liabilities. These standards apply to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Foundation does not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2009.

(a) Financial assets

The carrying amount of financial assets, consisting of cash, accounts receivable, estimated pledge receivables, restricted cash, accounts payable, accrued expenses and current installments of long-term debt approximate their fair value due to their relatively short maturities. Long-term debt is carried at amortized cost, which approximates fair value. Investments and beneficial interests in perpetual trust, which primarily include mutual funds and equity securities, within the fair value hierarchy, are considered Level 1 assets and are recorded at fair value. The interest rate swap, within the fair value hierarchy, is considered a Level 2 liability and is measured at fair value on a recurring basis.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

(b) Non-financial assets

The Foundation's non-financial assets, which include property and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Foundation is required to evaluate the non-financial instrument for impairment, a resulting asset impairment would require that the non-financial asset be recorded at the fair value. During the year ended December 31, 2009, the Foundation did not measure any non-financial assets at fair-value or recognize any amounts in the statements of activities related to changes in fair value for non-financial assets.

(5) 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>2009</u>	<u>2008</u>
Receivable in less than one year	\$ 476,536	\$ 848,674
Receivable in one to five years	<u>254,088</u>	<u>469,359</u>
	730,624	1,318,033
Less allowance for uncollectible pledges	210,400	102,184
Less discount	<u>29,718</u>	<u>67,196</u>
	<u>\$ 490,506</u>	<u>\$ 1,148,653</u>

(6) Investments

A summary of the fair value of investments as of December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Cash	\$ 104,523	\$ 140,303
Mutual funds	417,480	631,507
Equity securities	<u>463,951</u>	<u>-</u>
	<u>\$ 985,954</u>	<u>\$ 771,810</u>

At December 31, 2009, the fair value of invested assets assigned to permanently restricted endowment net asset balances required to be maintained in perpetuity had a \$35,527 deficiency.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

(7) 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 \$505,574 and \$436,863 at December 31, 2009 and 2008, respectively, and is included in permanently restricted net assets in the accompanying consolidated financial statements.

(8) Investment income

The following schedule summarizes the investment income (loss) in the consolidated statements of activities for 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Interest and dividend income	\$ 37,407	\$ 146,526
Net gain (loss) on investments	216,807	(376,139)
Fees paid	<u>(16,992)</u>	<u>(9,628)</u>
	<u>\$ 237,222</u>	<u>\$ (239,241)</u>

(9) Property and equipment

A summary of property and equipment as of December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Land	\$ 348,442	\$ 348,442
Buildings and improvements	20,430,854	20,951,718
Machinery and equipment	2,773,337	2,638,012
Transportation equipment	137,874	99,733
Furniture and fixtures	1,027,161	989,798
Construction in progress	<u>28,570</u>	<u>15,102</u>
	24,746,238	25,042,805
Accumulated depreciation	<u>(9,270,063)</u>	<u>(8,475,540)</u>
	<u>\$ 15,476,175</u>	<u>\$ 16,567,265</u>

In May 2009, the Foundation sold the property located at Thompson Lane in Nashville, Tennessee for a fixed price of \$750,000 to a non-related third party. The Foundation recognized a net gain of \$433,200 from the transaction.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

(10) Line of credit

The Foundation has a \$1,250,000 revolving line of credit available with a bank, which matures May 31, 2010. There were no borrowings on the line at December 31, 2009 and December 31, 2008. Borrowings under the line bore interest, payable on the first day of the month, at an annual interest rate equal to the National Prime rate plus 124 basis points, through July 31, 2009. Effective July 31, 2009, borrowings under the line bear interest, payable monthly, at an annual interest rate equal to the one-month LIBOR plus 3.25 percentage points over the index (3.49% at December 31, 2009) and is unsecured.

The line of credit agreement is cross-collateralized with the long-term debt (see Note 11). 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.

(11) Long-term debt

A summary of long-term debt as of December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Note payable in connection with \$9,991,000 Series 2007 Health Facilities Bonds issued by the Metropolitan Government of Nashville and Davidson County, Tennessee; due in scheduled principal installments as summarized by year below, plus interest at a variable rate based on the 30-day LIBOR rate (1.4032% at December 31, 2009) through May 15, 2017.	\$ 7,000,000	\$ 9,991,000
Less current installments	<u>1,500,000</u>	<u>2,991,000</u>
Long-term debt, excluding current installments	<u>\$ 5,500,000</u>	<u>\$ 7,000,000</u>

A summary of future maturities of long-term debt as of December 31, 2009 is as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 1,500,000
2011	1,088,688
2012	113,464
2013	121,666
2014	130,462
2015 and later years	<u>4,045,720</u>
	<u>\$ 7,000,000</u>

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.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

(12) 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 3.39% and receives interest at 70% of the one-month LIBOR plus 1.24%. The existing agreement terminates in May 2017 and has an original notional amount of \$9,991,000. The current notional amount is \$7,000,000 as of December 31, 2009. 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, 2009 and 2008, the fair value of the agreement was \$422,219 and \$748,869, 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 \$(326,650) and \$423,266 during the years ended December 31, 2009 and 2008, respectively, is reported as a (gain) loss in the consolidated statements of activities.

(13) Net assets

As of December 31, 2009, the Board of Directors had designated \$235,327 of unrestricted net assets as a general endowment fund to support the mission of the Organization. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

The primary objective of the Foundation's endowment funds is the preservation of capital. Secondly, the endowment funds should provide reasonable growth of principal within the unfolding market environment, as well as an adequate level of income to supplement the financial needs of the Foundation. The monies of the endowment funds are to be invested in a portfolio that is comprised of equity securities (50-70%), fixed income securities (30-50%) and cash reserves (0-10%).

Composition of and changes in endowment net assets for the year ended December 31, 2009 were as follows:

	<u>2009</u>	<u>2008</u>
Board-designated endowment net assets, beginning of year	\$ 283,545	\$ 394,568
Net change during year	<u>(48,218)</u>	<u>(111,023)</u>
Board-designated endowment net assets, end of year	<u>\$ 235,327</u>	<u>\$ 283,545</u>

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

Endowment net asset composition by type of fund as of December 31, 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 572,784	\$ 683,417	\$ 1,256,201
Board-designated endowment funds	<u>235,327</u>	<u>-</u>	<u>-</u>	<u>235,327</u>
Total funds	<u>\$ 235,327</u>	<u>\$ 572,784</u>	<u>\$ 683,417</u>	<u>\$ 1,491,528</u>
Endowment net assets, beginning of year	\$ 283,545	\$ 310,423	\$ 614,705	\$ 1,208,673
Contributions	39,262	189,176	-	228,438
Amounts appropriated for expenditure	(139,460)	(23,295)	-	(162,755)
Investment income, net	<u>51,980</u>	<u>96,480</u>	<u>68,712</u>	<u>217,172</u>
Endowment net assets, end of year	<u>\$ 235,327</u>	<u>\$ 572,784</u>	<u>\$ 683,417</u>	<u>\$ 1,491,528</u>

Temporarily restricted net assets as of December 31, 2009 and 2008 are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Preservation of capital assets	\$ 1,160,518	\$ 1,215,493
Men's facility	130,350	-
Patient assistance	1,199,342	627,184
Other	<u>812,041</u>	<u>1,144,223</u>
	<u>\$ 3,302,251</u>	<u>\$ 2,986,900</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, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Olcott Foundation	\$ 505,574	\$ 436,862
Earthman Endowment	<u>177,843</u>	<u>177,843</u>
	<u>\$ 683,417</u>	<u>\$ 614,705</u>

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.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

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.

(14) Natural classification of expenses

A summary of the natural classification of expenses for the years ended December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Salaries and temporary labor	\$ 14,425,333	\$ 13,747,913
Contract services	1,447,729	1,366,982
Provision for doubtful accounts	676,082	856,300
Depreciation and amortization	1,121,627	1,207,384
Interest, including swap agreement	33,973	914,549
General insurance	471,909	484,150
Utilities	645,815	622,064
Food service	758,866	736,741
Supplies	612,808	614,549
Other	<u>2,910,698</u>	<u>2,589,086</u>
	<u>\$ 23,104,840</u>	<u>\$ 23,139,718</u>

(15) 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 \$210,700 and \$191,969 to the Plan in 2009 and 2008, respectively.

(16) Advertising expenses

Advertising costs of \$648,013 and \$536,311 were expensed during 2009 and 2008, respectively.

(17) Lease commitments

The Foundation leases office space and various office equipment under operating leases. Rent expense under these leases amounted to \$498,985 and \$426,337 in 2009 and 2008, respectively.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

A summary of future minimum payments under these leases as of December 31, 2009 is as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 389,729
2011	303,507
2012	162,654
2013	<u>71,334</u>
	\$ <u>927,224</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 2009.

(18) 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.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes that the Foundation is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

(19) 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.

(20) Supplemental disclosures of cash flow statement information

	<u>2009</u>	<u>2008</u>
Interest paid	\$ <u>360,623</u>	\$ <u>491,282</u>

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Consolidating Statement of Financial Position

December 31, 2009

Assets	Eliminating Entries				Consolidated
	Cumberland Heights Foundation, Inc.	Cumberland Heights Professional Associates, Inc.	Creative Recovery Communities, Inc.	Debit	Credit
Current assets:					
Cash	\$ 2,207,132	\$ 10,621	\$ 46,885	-	\$ -
Accounts receivable for services, net	2,839,072	139,261	-	-	-
Receivable from related parties	1,072,851	-	-	(a)	1,072,851
Current portion of pledges receivable, net	266,136	-	-	-	-
Other current assets	167,451	-	-	-	-
Total current assets	6,552,642	149,882	46,885	-	1,072,851
Property and equipment, net	15,475,224	-	951	-	-
Pledges receivable, excluding current portion	224,370	-	-	-	-
Investments	985,954	-	-	-	-
Beneficial interest in perpetual trust	505,574	-	-	-	-
Restricted cash	2,218,136	-	-	-	-
Total assets	\$ 25,961,900	\$ 149,882	\$ 47,836	\$ -	\$ 1,072,851
Liabilities and Net Assets (Deficit)					
Current liabilities:					
Current portion of long term debt	\$ 1,500,000	\$ -	\$ -	\$ -	\$ -
Payable to related parties	-	1,072,851	(a)	1,072,851	-
Accounts payable	308,475	19,053	-	-	-
Accrued expenses	859,639	38,520	-	-	-
Total current liabilities	2,668,114	1,130,424	-	1,072,851	-
Long term debt, excluding current installments	5,500,000	-	-	-	-
Fair market value of interest rate swap	422,219	-	-	-	-
Total liabilities	8,590,333	1,130,424	-	1,072,851	-
Net assets					
Unrestricted	13,551,215	(980,542)	(117,480)	-	-
Temporarily restricted	3,136,935	-	165,316	-	-
Permanently restricted	683,417	-	-	-	-
Total net assets (deficit)	17,371,567	(980,542)	47,836	-	-
	\$ 25,961,900	\$ 149,882	\$ 47,836	\$ 1,072,851	\$ -
					\$ 25,086,767

(a) To eliminate intercompany receivables and payables.

CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

Consolidating Statement of Activities

Year Ended December 31, 2009

	Cumberland Heights Foundation, Inc.			Cumberland Heights Professional Associates, Inc.		Creative Recovery Communities, Inc.		Eliminating Entries	
								Debit	Credit
Changes in unrestricted net assets:									
Public support & revenue									
Net patient service revenue	\$	21,637,681	\$	796,139	\$	-	\$	49,400	\$
Contributions		166,883		-		759		-	
Investment income/(loss)		54,864		-		-		-	
Gain on sale of property and equipment		433,200		-		-		-	
Other		322,525		-		-		-	
Total public support and revenue		22,615,153		796,139		759		49,400	
Satisfaction of restrictions		429,947		-		19,798		-	
Total unrestricted public support and revenue		23,045,100		796,139		20,557		49,400	
Expenses:									
Program services:									
Clinical services		9,878,350		1,066,207		7,555		-	
Ancillary services		4,391,326		-		19,798		-	
Total program services		14,269,676		1,066,207		27,353		-	
Supporting services:									
Administrative and fiscal		5,681,554		77,137		496		-	49,400
Marketing and public relations		2,358,467		-		-		-	-
Total supporting services		8,040,021		77,137		496		-	49,400
Gain on interest rate swap		(326,650)		-		-		-	-
Total expenses		21,983,047		1,143,344		27,849		-	49,400
Increase (decrease) in unrestricted net assets (deficit)		1,062,053		(347,205)		(7,292)		49,400	49,400
Changes in temporarily restricted net assets:									
Contributions		651,450		-		-		-	-
Investment income/(loss)		113,646		-		-		-	-
Net assets released from restrictions		(429,947)		-		(19,798)		-	-
Increase (decrease) in temporarily restricted net assets (deficit)		335,149		-		(19,798)		-	-
Changes in permanently restricted net assets									
Investment income/(loss)		68,712		-		-		-	68,712
Net assets reclassified to temporary restrictions or unrestricted		-		-		-		-	-
Increase (decrease) in permanently restricted net assets (deficit)		68,712		-		-		-	-
Increase (decrease) in net assets (deficit)		1,465,914		(347,205)		(27,090)		49,400	49,400
Net assets (deficit) at the beginning of the year		15,905,653		(633,337)		74,926		-	-
Net assets (deficit) at the end of the year	\$	17,371,567	\$	(980,542)	\$	47,836	\$	49,400	\$

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