

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

**Consolidated Financial Statements and Schedules**

**December 31, 2010 and 2009**

**(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, 2010 and 2009, 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, 2010 and 2009, 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  
September 28, 2011

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Consolidated Statements of Financial Position

December 31, 2010 and 2009

	<u>Assets</u>	
	<u>2010</u>	<u>2009</u>
<b>Current assets:</b>		
Cash	\$ 999,628	\$ 2,264,638
Accounts receivable for services, less allowance for doubtful accounts of \$632,499 in 2010 and \$519,313 in 2009	2,639,027	2,978,333
Current portion of pledges receivable, less allowance for uncollectible pledges of \$104,656 in 2010 and \$210,400 in 2009	320,731	266,136
Other current assets	355,730	167,451
Restricted cash	<u>940,837</u>	<u>-</u>
Total current assets	5,255,953	5,676,558
Property and equipment, net	15,389,799	15,476,175
Pledges receivable, excluding current portion	65,924	224,370
Investments	1,111,320	985,954
Beneficial interest in perpetual trust	546,104	505,574
Restricted cash	<u>-</u>	<u>2,218,136</u>
	<u>\$ 22,369,100</u>	<u>\$ 25,086,767</u>
 <u>Liabilities and Net Assets</u>		
<b>Current liabilities:</b>		
Current installments of long-term debt	\$ 1,088,688	\$ 1,500,000
Accounts payable	340,649	327,528
Accrued expenses	<u>754,031</u>	<u>898,159</u>
Total current liabilities	2,183,368	2,725,687
Long-term debt, excluding current installments	4,411,312	5,500,000
Fair value of interest rate swap agreement	<u>482,173</u>	<u>422,219</u>
Total liabilities	<u>7,076,853</u>	<u>8,647,906</u>
<b>Net assets:</b>		
Unrestricted	12,689,160	12,453,193
Temporarily restricted	2,056,983	3,302,251
Permanently restricted	<u>546,104</u>	<u>683,417</u>
Total net assets	<u>15,292,247</u>	<u>16,438,861</u>
	<u>\$ 22,369,100</u>	<u>\$ 25,086,767</u>

See accompanying notes to the consolidated financial statements.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Consolidated Statements of Activities

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Changes in unrestricted net assets:		
Public support and revenue:		
Patient service revenue, net	\$ 20,359,334	\$ 22,384,420
Contributions	131,848	167,642
Investment income	26,965	54,864
Gain on sale of property and equipment	-	433,200
Other	<u>398,712</u>	<u>322,525</u>
Total public support and revenue	20,916,859	23,362,651
Satisfaction of restrictions	<u>2,381,153</u>	<u>449,745</u>
Total unrestricted public support and revenue	<u>23,298,012</u>	<u>23,812,396</u>
Expenses:		
Program services:		
Clinical services	10,864,337	10,952,112
Ancillary services	<u>3,998,707</u>	<u>4,411,124</u>
Total program services	14,863,044	15,363,236
Supporting services:		
Administrative and fiscal	5,818,682	5,709,787
Marketing and public relations	<u>2,320,365</u>	<u>2,358,467</u>
Total supporting services	8,139,047	8,068,254
(Gain) loss on interest rate swap agreement	<u>59,954</u>	<u>(326,650)</u>
Total expenses	<u>23,062,045</u>	<u>23,104,840</u>
Increase in unrestricted net assets	<u>235,967</u>	<u>707,556</u>
Changes in temporarily restricted net assets:		
Contributions	881,381	651,450
Investment income, net	61,415	113,646
Net assets released from restrictions	(2,365,907)	(449,745)
Net assets reclassified from permanently restricted	<u>177,843</u>	<u>-</u>
Increase (decrease) in temporarily restricted net assets	<u>(1,245,268)</u>	<u>315,351</u>
Changes in permanently restricted net assets:		
Investment income, net	55,776	68,712
Net assets released from restrictions	(15,246)	-
Net assets reclassified to temporarily restricted	<u>(177,843)</u>	<u>-</u>
Increase (decrease) in permanently restricted net assets	<u>(137,313)</u>	<u>68,712</u>
Increase (decrease) in net assets	(1,146,614)	1,091,619
Net assets at beginning of year	<u>16,438,861</u>	<u>15,347,242</u>
Net assets at end of year	<u>\$ 15,292,247</u>	<u>\$ 16,438,861</u>

See accompanying notes to the consolidated financial statements.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (1,146,614)	\$ 1,091,619
Adjustments to reconcile change in net assets to cash flows provided (used) by operating activities:		
Depreciation and amortization	1,081,826	1,121,627
Provision for doubtful accounts	951,723	676,082
Provision for uncollectible pledges	(105,744)	108,216
Gain on sale of property and equipment	-	(433,200)
Discount on pledges receivable	(10,700)	(37,478)
Net gain on investments	(123,640)	(216,807)
(Gain) loss on interest rate swap agreement	59,954	(326,650)
(Increase) decrease in operating assets:		
Accounts receivable for services	(618,100)	(1,381,312)
Pledges receivable	220,295	587,409
Other current assets	(182,596)	(14,379)
Increase (decrease) in operating liabilities:		
Accounts payable	13,121	81,131
Accrued expenses	<u>(144,128)</u>	<u>(110,914)</u>
Total adjustments	<u>1,142,011</u>	<u>53,725</u>
Net cash provided (used) by operating activities	<u>(4,603)</u>	<u>1,145,344</u>
<b>Cash flows from investing activities:</b>		
Proceeds from disposal of property and equipment	-	715,856
Purchases of property and equipment	(995,450)	(313,193)
Proceeds from sale of investments	55,387	37,680
Purchases of investments, net	(97,643)	(103,728)
Change in restricted cash	<u>1,277,299</u>	<u>2,239,165</u>
Net cash provided by investing activities	<u>239,593</u>	<u>2,575,780</u>
<b>Cash flows from financing activities -</b>		
Repayments on long-term debt	<u>(1,500,000)</u>	<u>(2,991,000)</u>
Increase (decrease) in cash	(1,265,010)	730,124
Cash at beginning of year	<u>2,264,638</u>	<u>1,534,514</u>
Cash at end of year	<u>\$ 999,628</u>	<u>\$ 2,264,638</u>

See accompanying notes to the consolidated financial statements.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

(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 Recoveries 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, 2010 and 2009

(c) Restricted cash

Restricted cash of \$940,837 and \$2,218,136 at December 31, 2010 and 2009, respectively, consists of undisbursed loan proceeds and capital campaign contributions which are restricted for future construction projects or debt service. During 2011, all restricted cash was used for 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. Interest and dividend 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, 2010 and 2009

(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.

Under generally accepted accounting principles, 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 Foundation and Affiliates had no material uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

As of December 31, 2010, the Foundation has accrued no interest and no penalties related to uncertain tax positions. It is their policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Foundation and Affiliates file separate U.S. Federal information tax returns. The organizations are currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2007 through December 31, 2010.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

(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 \$7,671,693 and \$7,456,978 in 2010 and 2009, 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 \$1,858,123 and \$842,622 in 2010 and 2009, respectively.

Certain 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.

(i) Advertising and promotion costs

Advertising and promotion costs are expensed as incurred.

(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) 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 gain or loss on 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.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

(l) 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.

(m) New accounting pronouncements

In August 2010, accounting standards relating to the presentation of insurance claims and related insurance recoveries for health care entities were amended to require the entity to recognize an insurance receivable at the same time that it recognizes the liability, measured on the same basis of the liability. These amendments are effective for financial statements for fiscal years beginning after December 15, 2010. Therefore the Foundation expects to adopt these standards at the beginning of 2011.

In August 2010, accounting standards relating to the disclosure of charity care for health care entities were amended to require the entity to measure charity care based on the direct and indirect costs of providing the charity care. These amendments are effective for financial statements for fiscal years beginning after December 15, 2010. Therefore the Foundation expects to adopt these standards at the beginning of 2011.

The Foundation is currently assessing the impact of adopting these accounting standards.

(n) Fund raising costs

For the years ended December 31, 2010 and 2009, expenses totaling \$319,077 and \$445,084 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, 2010 and September 28, 2011 which is the date that the financial statements were available to be issued, for possible 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.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

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 and revenue from Blue Cross/Magellan, private insurance companies, and individuals as of and for the years ended December 31, 2010 and 2009, is as follows:

	<u>2010</u>		<u>2009</u>	
	<u>AR</u>	<u>Revenue</u>	<u>AR</u>	<u>Revenue</u>
Other private insurance	50 %	38 %	36 %	34 %
Individuals	38	26	28	21
Blue Cross/Magellan	<u>12</u>	<u>36</u>	<u>36</u>	<u>45</u>
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

(4) Assets and liabilities measured at fair value

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation's management has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for asset measurement at fair value. There have been no changes in the methodologies used at December 31, 2010 and 2009.

- (i) *Mutual funds*: Valued at the net asset value of shares held by the Foundation at year end.
- (ii) *Equity securities*: Valued at the closing price reported on the active market on which the individual securities are traded.
- (iii) *Contributions receivable*: Valued at the net realizable value of the contributions receivable outstanding at year-end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2010 and 2009:

	<u>2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash held in interest program	\$ <u>121,197</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>121,197</u>
Mutual funds:				
Fixed income	314,004	-	-	314,004
Domestic index	68,244	-	-	68,244
International	<u>59,116</u>	<u>-</u>	<u>-</u>	<u>59,116</u>
	<u>441,364</u>	<u>-</u>	<u>-</u>	<u>441,364</u>

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

### Equity securities:

Consumer	131,673	-	-	131,673
Industrial and energy	152,150	-	-	152,150
Information	110,350	-	-	110,350
Healthcare	65,148	-	-	65,148
Telecommunications and utilities	45,168	-	-	45,168
Other	44,270	-	-	44,270
	<u>548,759</u>	<u>-</u>	<u>-</u>	<u>548,759</u>
Beneficial trust	<u>546,104</u>	<u>-</u>	<u>-</u>	<u>546,104</u>
Contributions receivable, net	<u>-</u>	<u>-</u>	<u>386,655</u>	<u>386,655</u>
Total	<u>\$ 1,657,424</u>	<u>\$ -</u>	<u>\$ 386,655</u>	<u>\$ 2,044,079</u>

2009

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash held in interest program	\$ 104,523	\$ -	\$ -	\$ 104,523
Mutual funds	417,480	-	-	417,480
Equity securities	463,951	-	-	463,951
Contributions receivable, net	-	-	490,506	490,506
Beneficial Trust	<u>505,574</u>	<u>-</u>	<u>-</u>	<u>505,574</u>
Total	<u>\$ 1,491,528</u>	<u>\$ -</u>	<u>\$ 490,506</u>	<u>\$ 1,982,034</u>

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, 2010 and 2009

The following table provides a summary of changes in fair value of the Foundation's Level 3 assets for the year ended December 31, 2010 and 2009:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	Contributions receivable, net
Balance at December 31, 2008	\$ 1,148,653
New contributions	125,234
Contribution payments received	(669,486)
Increase in allowance for uncollectible pledges	(108,216)
Decrease in contribution discount	37,478
Write-off of pledges	<u>(43,157)</u>
Balance at December 31, 2009	490,506
New contributions	389,925
Contribution payments received	(420,045)
Decrease in allowance for uncollectible pledges	105,744
Decrease in contribution discount	10,700
Write-off of pledges	<u>(190,175)</u>
Balance at December 31, 2010	<u>\$ 386,655</u>

### (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>2010</u>	<u>2009</u>
Receivable in less than one year	\$ 425,387	\$ 476,536
Receivable in one to five years	<u>84,942</u>	<u>254,088</u>
	510,329	730,624
Less allowance for uncollectible pledges	104,656	210,400
Less discount	<u>19,018</u>	<u>29,718</u>
	<u>\$ 386,655</u>	<u>\$ 490,506</u>

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

### (6) Investments

A summary of the fair value of investments as of December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Cash held in interest program	\$ 121,197	\$ 104,523
Mutual funds	441,364	417,480
Equity securities	<u>548,759</u>	<u>463,951</u>
	<u>\$ 1,111,320</u>	<u>\$ 985,954</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. At December 31, 2010 no deficiency exists.

### (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 \$546,104 and \$505,574 at December 31, 2010 and 2009, 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 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 37,347	\$ 37,407
Net gain on investments	123,640	216,807
Fees paid	<u>(16,831)</u>	<u>(16,992)</u>
	<u>\$ 144,156</u>	<u>\$ 237,222</u>



# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

### (9) Property and equipment

A summary of property and equipment as of December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Land	\$ 348,442	\$ 348,442
Buildings and improvements	21,240,282	20,430,854
Machinery and equipment	2,933,549	2,773,337
Transportation equipment	170,158	137,874
Furniture and fixtures	1,038,762	1,027,161
Construction in progress	<u>10,495</u>	<u>28,570</u>
	25,741,688	24,746,238
Accumulated depreciation	<u>(10,351,889)</u>	<u>(9,270,063)</u>
	<u>\$ 15,389,799</u>	<u>\$ 15,476,175</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.

### (10) Line of credit

At December 31, 2010, the Foundation had a \$1,250,000 revolving line of credit available with a bank that was converted to a \$950,000 revolving line of credit as of August 25, 2011, which matures August 31, 2012. There were no borrowings on the line at December 31, 2010 and December 31, 2009. 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 2.750 percentage points over the index (3.01% at December 31, 2010) and are 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. The Foundation was in violation of certain debt covenants as of December 31, 2010. However, the Foundation received a waiver of the violation in September 2012.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

### (11) Long-term debt

A summary of long-term debt as of December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</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 (1.4222% at December 31, 2010) through May 15, 2017.	\$ 5,500,000	\$ 7,000,000
Less current installments	<u>1,088,688</u>	<u>1,500,000</u>
Long-term debt, excluding current installments	<u>\$ 4,411,312</u>	<u>\$ 5,500,000</u>

A summary of future maturities of long-term debt as of December 31, 2010 is as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 1,088,688
2012	113,464
2013	121,666
2014	130,462
2015	139,893
2016 and later years	<u>3,905,827</u>
	<u>\$ 5,500,000</u>

The long-term note payable is secured by a negative pledge of the Foundation's assets and the loan agreement requires maintenance of certain covenants (see Note 10).

### (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 \$5,500,000 as of December 31, 2010. 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, 2010 and 2009, the fair value of the agreement was \$482,173 and \$422,219, 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 \$59,954 and \$(326,650) during the years ended December 31, 2010 and 2009, respectively, is reported as a (gain) loss in the consolidated statements of activities.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

### (13) Net assets

As of December 31, 2010, the Board of Directors had designated \$234,963 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, 2010 were as follows:

	<u>2010</u>	<u>2009</u>
Board-designated endowment net assets, beginning of year	\$ 235,327	\$ 283,545
Net change during year	<u>(364)</u>	<u>(48,218)</u>
Board-designated endowment net assets, end of year	\$ <u>234,963</u>	\$ <u>235,327</u>

Endowment net asset composition by type of fund as of December 31, 2010 and is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 876,357	\$ 546,104	\$ 1,422,461
Board-designated endowment funds	<u>234,963</u>	<u>-</u>	<u>-</u>	<u>234,963</u>
Total funds	\$ <u>234,963</u>	\$ <u>876,357</u>	\$ <u>546,104</u>	\$ <u>1,657,424</u>
Endowment net assets, beginning of year	\$ 235,327	\$ 572,784	\$ 683,417	\$ 1,491,528
Contributions	10,010	77,090	-	87,100
Reclassifications	-	177,843	(177,843)	-
Amounts appropriated for expenditure	(27,366)	(12,775)	(15,246)	(55,387)
Investment income, net	<u>16,992</u>	<u>61,415</u>	<u>55,776</u>	<u>134,183</u>
Endowment net assets, end of year	\$ <u>234,963</u>	\$ <u>876,357</u>	\$ <u>546,104</u>	\$ <u>1,657,424</u>

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

Endowment net asset composition by type of fund as of December 31, 2009 and 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, 2010 and 2009 are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Preservation of capital assets	\$ -	\$ 1,160,518
Men's facility	121,851	130,350
Patient assistance	708,424	1,199,342
Other specific operational programs	<u>1,226,708</u>	<u>812,041</u>
	\$ <u>2,056,983</u>	\$ <u>3,302,251</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, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Olcott Foundation	\$ 546,104	\$ 505,574
Earthman Endowment	<u>-</u>	<u>177,843</u>
	\$ <u>546,104</u>	\$ <u>683,417</u>

During 2010, management determined that \$177,843 of permanently restricted net assets should be reclassified to temporarily restricted net assets in order to comply with the donor's intended use for the gift.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

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, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Salaries and temporary labor	\$ 13,964,684	\$ 14,425,333
Contract services	1,157,078	1,447,729
Provision for doubtful accounts	951,723	676,082
Depreciation and amortization	1,081,828	1,121,627
Interest, including swap agreement	341,587	33,973
General insurance	477,832	471,909
Utilities	617,724	645,815
Food service	722,906	758,866
Supplies	533,967	612,808
Other	<u>3,212,716</u>	<u>2,910,698</u>
	<u>\$ 23,062,045</u>	<u>\$ 23,104,840</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 \$164,739 and \$210,700 to the Plan in 2010 and 2009, respectively. Effective October 2010, the Company discontinued all matching contributions.

### (16) Advertising expenses

Advertising costs of \$541,804 and \$648,013 were expensed during 2010 and 2009, respectively.

### (17) Lease commitments

The Foundation leases office space and various office equipment under operating leases. Rent expense under these leases amounted to \$566,057 and \$498,985 in 2010 and 2009, respectively.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

A summary of future minimum payments under these leases as of December 31, 2010 is as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 418,146
2012	226,779
2013	161,972
2014	77,463
2015	<u>39,507</u>
	<u>\$ 923,867</u>

### (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>2010</u>	<u>2009</u>
Interest paid	\$ <u>281,633</u>	\$ <u>360,623</u>

### (21) Subsequent event

Effective August 25, 2011, certain modifications were made to the Loan Agreement relating to debt covenants referred to Note 10. At this time, the Foundation also renewed the existing revolving line of credit (see Note 10).

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

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

**December 31, 2010 and 2009**

### **(22) Management's plans for future operations**

After the loss of a major payer contract, the executive management team enacted several cost saving measures to realign the Foundation's cost structure with the lower census. These measures included a hiring freeze, reduction in workforce, suspension of merit raises and 401k contributions, as well as reductions in operating expenses. Careful consideration was made so that patient care would not be adversely affected.

Revenue enhancement strategies currently being employed include diversifying the payer mix by expanding into more self pay and new geographic markets. An increase in business development staff is focused on this expansion. Public relations and advertising is being utilized to solidify and grow referrals at the local and regional levels. Donor development and solicitations are helping to match organizational needs with community donations. Contract rate increases for commercial insurance and self pay rates should yield greater cash flow and revenue per patient day.

On August 1, 2011, Cumberland Heights became an in-network provider for Magellan and subsequently the Blue Cross networks. Being in-network with Blue Cross Blue Shield provides access to many more patients and is anticipated to increase the census and revenues considerably. The executive management team has decided to initially limit the inpatient census to a maximum of 85 patients to ensure that we can provide the best patient care while remaining profitable.

# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Consolidating Statement of Financial Position

December 31, 2010

Assets	Cumberland Heights Foundation, Inc.	Cumberland Heights Professional Associates, Inc.	Creative Recovery Communities, Inc.	Eliminating Entries		Consolidated
				Debit	Credit	
Current assets:						
Cash	\$ 971,768	\$ 27,838	\$ 22	\$ -	\$ -	\$ 999,628
Accounts receivable for services, net	2,539,573	99,454	-	-	-	2,639,027
Receivable from related parties	1,360,833	-	-	(a)	1,360,833	-
Current portion of pledges receivable, net	320,731	-	-	-	-	320,731
Other current assets	355,730	-	-	-	-	355,730
Restricted cash	940,837	-	-	-	-	940,837
Total current assets	6,489,472	127,292	22	-	1,360,833	5,255,953
Property and equipment, net	15,389,799	-	-	-	-	15,389,799
Pledges receivable, excluding current portion	65,924	-	-	-	-	65,924
Investments	1,111,320	-	-	-	-	1,111,320
Beneficial interest in perpetual trust	546,104	-	-	-	-	546,104
Total assets	\$ 23,602,619	\$ 127,292	\$ 22	\$ -	\$ 1,360,833	\$ 22,369,100
<b>Liabilities and Net Assets (Deficit)</b>						
Current liabilities:						
Current portion of long term debt	\$ 1,088,688	\$ -	\$ -	\$ -	\$ -	\$ 1,088,688
Payable to related parties	-	1,360,833	-	1,360,833	-	-
Accounts payable	337,252	3,397	-	-	-	340,649
Accrued expenses	731,103	22,928	-	-	-	754,031
Total current liabilities	2,157,043	1,387,158	-	1,360,833	-	2,183,368
Long term debt, excluding current installments	4,411,312	-	-	-	-	4,411,312
Fair market value of interest rate swap	482,173	-	-	-	-	482,173
Total liabilities	7,050,528	1,387,158	-	1,360,833	-	7,076,853
Net assets						
Unrestricted	14,067,675	(1,259,866)	(118,649)	-	-	12,689,160
Temporarily restricted	1,938,312	-	118,671	-	-	2,056,983
Permanently restricted	546,104	-	-	-	-	546,104
Total net assets (deficit)	16,552,091	(1,259,866)	22	-	-	15,292,247
	\$ 23,602,619	\$ 127,292	\$ 22	\$ 1,360,833	\$ -	\$ 22,369,100

(a) To eliminate intercompany receivables and payables.



# CUMBERLAND HEIGHTS FOUNDATION, INC. AND AFFILIATES

## Consolidating Statement of Activities

Year Ended December 31, 2010

	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	\$ 19,735,117	\$ 624,217	\$ -	\$ (a)	-	\$ 20,359,334
Net patient service revenue	131,807	-	41	-	-	131,848
Contributions	26,965	-	-	-	-	26,965
Investment income <sup>(e)</sup>	391,683	47,774	-	40,745	-	398,712
Other						
Total public support and revenue	20,285,572	671,991	41	40,745	-	20,916,859
Satisfaction of restrictions	2,334,508	-	46,645	-	-	2,381,153
Total unrestricted public support and revenue	22,620,080	671,991	46,686	40,745	-	23,298,012
Expenses:						
Program services:						
Clinical services	9,996,913	866,473	951	-	-	10,864,337
Ancillary services	3,952,063	-	46,644	-	-	3,998,707
Total program services	13,948,976	866,473	47,595	-	-	14,863,044
Supporting services:						
Administrative and fiscal	5,774,325	84,842	260	-	(a) 40,745	5,818,682
Marketing and public relations	2,320,365	-	-	-	-	2,320,365
Total supporting services	8,094,690	84,842	260	-	40,745	8,139,047
Loss on interest rate swap	59,954	-	-	-	-	59,954
Total expenses	22,103,620	951,315	47,855	-	40,745	23,062,045
Increase (decrease) in unrestricted net assets (deficit)	516,460	(279,324)	(1,169)	40,745	40,745	235,967
Changes in temporarily restricted net assets:						
Contributions	881,381	-	-	-	-	881,381
Investment income	61,415	-	-	-	-	61,415
Net assets released from restrictions	(2,319,262)	-	(46,645)	-	-	(2,365,907)
Net assets reclassified from permanently restricted	177,843	-	-	-	-	177,843
Decrease in temporarily restricted net assets (deficit)	(1,198,623)	-	(46,645)	-	-	(1,245,268)
Changes in permanently restricted net assets						
Investment income	55,776	-	-	-	-	55,776
Net assets released from restrictions	(15,246)	-	-	-	-	(15,246)
Net assets reclassified to temporary restrictions or unrestricted	(177,843)	-	-	-	-	(177,843)
Decrease in permanently restricted net assets (deficit)	(137,313)	-	-	-	-	(137,313)
Increase (decrease) in net assets (deficit)	(819,476)	(279,324)	(47,814)	40,745	40,745	(1,146,614)
Net assets (deficit) at the beginning of the year	17,371,567	(980,542)	47,836	-	-	16,438,861
Net assets (deficit) at the end of the year	\$ 16,552,091	\$ (1,259,866)	\$ 22	\$ 40,745	\$ 40,745	\$ 15,292,247

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