THE ROCHELLE CENTER

FINANCIAL STATEMENTS

JUNE 30, 2006

(With Independent Auditors' Report Thereon)

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JUNE 30, 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Rochelle Center

We have audited the accompanying statement of financial position of The Rochelle Center (a nonprofit organization) as of June 30, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Rochelle Center as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Akersloot, Patterson & Associates, P.L.L.C.

August 11, 2006

THE ROCHELLE CENTER
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2006

ASSETS

Current Assets:		
Cash and cash equivalents	$ 97,924	
Investments	673,546	
Receivables, net of allowance for doubtful accounts of $12,504	307,542	
Prepaid expenses	17,108	
Total current assets		$ 1,096,120
Property and Equipment:		
Land	49,332	
Buildings	1,768,800	
Equipment	921,246	
	2,739,378	
Less: accumulated depreciation	(1,477,961)	
		1,261,417
Assets Whose Use is Limited:		
Cash - restricted by the donor	38,731	
Cash - restricted by the board	495,000	
Buildings	383,000	
		916,731
		$ 3,274,268

LIABILITIES AND NET ASSETS

Current Liabilities:		
Current installments of long-term debt	$ 8,653	
Accounts payable	104,050	
Accrued expenses	32,897	
Total current liabilities		$ 145,600
Long-term debt, net of current installments		497,267
		642,867
Net Assets:		
Unrestricted:		
Undesignated	1,714,670	
Board-designated	495,000	
Total unrestricted		2,209,670
Temporarily restricted		421,731
		2,631,401
		$ 3,274,268

See accompanying notes to financial statements.

THE ROCHELLE CENTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Unrestricted	Temporarily Restricted	Total
Support and Revenues:			
Contributions	$ 12,771	$ 5,500	$ 18,271
United Way	47,803	-	47,803
Government grants and contracts	2,196,479	153,580	2,350,059
Supported employment	62,898	-	62,898
Program fees	62,178	-	62,178
Rental income	76,271	-	76,271
Workshop sales	383,963	-	383,963
Freight revenue	11,972	-	11,972
Special events	119,780	-	119,780
Investment income	33,922	-	33,922
Miscellaneous	1,648	-	1,648
Net assets released from restrictions due to payments	167,061	(167,061)	-
Total support and revenues	3,176,746	(7,981)	3,168,765
Expenses:			
Program services:			
Developmental services	706,045	-	706,045
Residential services	649,105	-	649,105
Production center	886,851	-	886,851
Memory Works program	87,163	-	87,163
Supported employment	37,304	-	37,304
Total program services	2,366,468	-	2,366,468
Supporting services:			
Management and general	495,067	-	495,067
Fundraising	77,122	-	77,122
Total supporting services	572,189	-	572,189
Total expenses	2,938,657	-	2,938,657
Increase in net assets	238,089	(7,981)	230,108
Net assets, beginning of year	1,971,581	429,712	2,401,293
Net assets, end of year	$ 2,209,670	$ 421,731	$ 2,631,401

See accompanying notes to financial statements.

THE ROCHELLE CENTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006

	Program Services			
	Developmental Services	Residential Services	Production Center	Memory Works Program
Salaries	$ 452,644	$ 388,285	$ 337,707	$ 59,857
Payroll taxes and benefits	75,761	67,448	78,964	7,337
Total personnel costs	528,405	455,733	416,671	67,194
Workshop wages and benefits	152	-	229,442	156
Contracted services	55,128	23,132	77,062	2,334
Supplies	24,551	41,430	21,218	2,567
Utilities	25,812	29,434	23,673	4,189
Rental	3,196	12,049	37,709	391
Insurance	-	-	-	-
Repairs and maintenance	12,567	19,282	14,722	1,627
Communications	6,103	13,608	5,857	933
Professional fees	-	-	-	-
Interest	145	25,586	-	-
Travel and transportation	1,852	12,044	4,163	270
Bad debts	-	-	7,500	-
Miscellaneous	1,352	1,213	635	289
Special events	-	-	-	-
Dues and subscriptions	-	-	-	125
Total expenses before depreciation	659,263	633,511	838,652	80,075
Depreciation	46,782	15,594	48,199	7,088
Total expenses	$ 706,045	$ 649,105	$ 886,851	$ 87,163

See accompanying notes to financial statements.

		Supporting Services		
Supported Employment	Total Program Services	Management and General	Fundraising	Total Expenses
$ 25,288	$ 1,263,781	$ 300,428	$ -	$ 1,564,209
4,305	233,815	58,191	-	292,006
29,593	1,497,596	358,619	-	1,856,215
5	229,755	-	-	229,755
4,350	162,006	28,826	37	190,869
51	89,817	12,936	75	102,828
480	83,588	2,868	-	86,456
-	53,345	3,101	-	56,446
-	-	37,209	-	37,209
456	48,654	11,034	-	59,688
404	26,905	5,727	60	32,692
-	-	6,350	-	6,350
-	25,731	154	-	25,885
1,610	19,939	702	-	20,641
-	7,500	-	-	7,500
355	3,844	5,420	1,280	10,544
-	-	-	72,835	72,835
-	125	856	-	981
37,304	2,248,805	473,802	74,287	2,796,894
-	117,663	21,265	2,835	141,763
$ 37,304	$ 2,366,468	$ 495,067	$ 77,122	$ 2,938,657

THE ROCHELLE CENTER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

Cash Flows From Operating Activities:		
Increase in net assets		$ 230,108
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	$ 141,763	
Allowance for bad debts	7,500	
Net unrealized change in investments	(4,810)	
Interest Income	(20,317)	
Changes in:		
Accounts receivable and deferred revenue	117,869	
Prepaid expenses	830	
Accrued expenses	(67,207)	
Accounts payable	78,996	
Total adjustments		254,624
Net cash provided by operating activities		484,732
Cash Flows from Investing Activities:		
Purchases of property and equipment	(221,118)	
Net change in cash whose use is limited	(533,731)	
Purchases of certificates of deposit	(100,000)	
Net cash used in investing activities		(854,849)
Cash Flows from Financing Activities:		
Payments on long-term debt	(8,036)	
Net cash used in financing activities		(8,036)
Net decrease in cash and cash equivalents		(378,153)
Cash and cash equivalents - beginning of year		476,077
Cash and cash equivalents - end of year		$ 97,924

Supplemental Cash Flow Information:

Interest paid during the year ended June 30, 2006, was $25,885.
During the year ended June 30, 2006, the Center financed property in the amount of $80,000.

See accompanying notes to financial statements.

THE ROCHELLE CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - Summary of Significant Accounting Policies

a. Nature of Activities

The Rochelle Center (the "Center) is a nonprofit organization located in Nashville, Tennessee. For over 30 years, the Rochelle Center has served persons with developmental disabilities and their families, creating opportunities to develop new skills, enhance independence and increase acceptance as valued members of their communities.

b. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. 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 Center 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 Center and/or the passage of time. Restrictions that are fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as unrestricted.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Center. Generally, the donors of these assets permit the Center to use all or part of the income earned and any related investments for general or specific purposes.

c. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Center considers all unrestricted cash and investment instruments purchased with original maturities of three months or less to be cash equivalents.

d. Concentration of Credit Risk

The Center maintains its cash in bank and money market accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts and does not believe that it is exposed to any significant credit risk on cash or its money market accounts.

e. Promises to Give

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as support and revenues in the period received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

f. Investments

The Center records investments in marketable securities with readily determinable fair values at their fair values in the Statement of Financial Position. Unrealized gains and losses on investments are included in the change in net assets in the accompanying Statement of Activities.

At June 30, 2006, investments consisted of $665,546 in certificates of deposit and $8,000 in marketable securities.

THE ROCHELLE CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - Summary of Significant Accounting Policies (continued)

g. Accounts Receivable

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding accounts. The Center has reserved $12,504 in potential bad debts.

At June 30, 2006, accounts receivable consisted of the following:

	Amount
Workshop contracts	$ 65,524
State of Tennessee - DMH/MR	93,181
State of Tennessee - THDA	99,012
Private pay	2,005
Residential	28,183
Special events	32,141
	320,046
Less: allowance for doubtful accounts	(12,504)
	$ 307,542

h. Property and Equipment

Property and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is provided utilizing the straight-line method over the estimated useful lives of the respective assets. The Center's capitalization policy is to capitalize any expenditures over $500 for any land, building, and equipment purchased. Expenditures for repairs and maintenance are charged to expense as incurred.

Property and equipment donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long the donated assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired assets are placed in service and also reclassifies the temporarily restricted nets assets to unrestricted net assets at that time.

A portion of the property and equipment is subject to the reversionary interest held by various governmental units in the assets, as well as any proceeds from their disposition through certain dates in the future, typically 15 years from the date of acquisition.

i. Accrued Expenses

Accrued expenses include accrued wages, leave, and any other liability that is accrued at year end. At June 30, 2006, accrued expenses consisted of the following:

Accrued vacation buy out	$ 17,689
Accrued leave	15,208
	$ 32,897

NOTE 1 - Summary of Significant Accounting Policies (continued)

j. Income Tax Status

The Center is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and the Center is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

k. Functional Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

l. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

m. Fair Values of Financial Instruments

The carrying values of current assets and current liabilities approximate fair values due to the short maturities of these instruments.

The fair values of long-term debt approximate the carrying amounts and are estimated based on current rates offered to the Center.

n. Donated Services

The Organization receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. No amounts have been recognized in the Statements of Activities because the criteria for recognition under SFAS No. 116 have not been satisfied.

NOTE 2 - Concentration of Credit Risk

At June 30, 2006, three customers owed the Center approximately 71% of the total accounts receivable.

NOTE 3 - Net Assets

At June 30, 2006, the Board of Directors has designated $495,000 in designated net assets to be used for capital improvements.

Also at June 30, 2006, the Center had $421,731 held in assets whose use was restricted by the donors as follows:

THDA grant	$ 383,000
Memorials	5,500
Bar code equipment	11,231
Sensory garden	22,000
Total temporarily restricted net assets	$ 421,731

THE ROCHELLE CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 4 - Long-term Debt

Long-term debt at June 30, 2006, consists of the following:

First mortgage note payable to U.S. Bank with a maturity of June 2, 2009. Monthly payments of $1,162 are required based on 25 years amortization with interest at 4.94%. The note is collateralized by real and personal property located at 1132 Graycroft Avenue, Madison, Tennessee.	$ 191,756
First mortgage note payable to U.S. Bank with a maturity of June 2, 2009. Monthly payments of $325 are required based on 25 years amortization with interest at 4.94%. The note is collateralized by real and personal property located at 1088 12th Avenue South, Nashville, Tennessee.	53,691
First mortgage note payable to Regions Bank with a maturity of July 15, 2009. Monthly payments of $464 are required at prime less 1% (7% at June 30, 2006.) The note is collateralized by real and personal property located at 7244 Old Harding Pike, Nashville, Tennessee.	91,837
First mortgage note payable to Regions Bank with a maturity of May 26, 2010. Monthly payments of $530 are required at prime less 1% (7% at June 30, 2006.) The note is collateralized by real and personal property located at 209 Wellington Drive, Nashville, Tennessee.	88,826
First mortgage note payable to Regions Bank with a maturity of March 15, 2011. Monthly payments of $540 are required at prime less 1% (7% at June 30, 2006.) The note is collateralized by real and personal property located at 4412 Gra Mar, Nashville, Tennessee.	79,810
	505,920
Less: current maturities	(8,653)
	$ 497,267

NOTE 4 - Long-term Debt (continued)

The following is a schedule of future maturities:

Year Ending June 30,	
2007	$ 8,653
2008	9,151
2009	9,679
2010	10,238
2011	10,830
Thereafter	457,369
	505,920
Less: current installments	(8,653)
	$ 497,267

NOTE 5 - Lease Agreement

The Center leases copiers under lease arrangements classified as operating leases. The leases are payable in monthly payments of $85 and $386 and expire in June 2007 and August 2007, respecively. The Center also leases real property and a postage meter on a month to month basis. Total rent expense for the year ended June 30, 2006, was $56,446.

Future minimum lease payments are as follows:

Year Ending June 30,	Amount
2007	$ 5,653
2008	773
Total	$ 6,426

NOTE 6 - Commitments and Contingencies

The Center receives a substantial amount of its support and revenues from governmental agencies. A significant reduction in the level of this support may reflect on the Center's future programs and activities. In addition, the funding received from the governmental agencies is subject to audit and retroactive adjustment by the governmental agencies.

From time to time, the Center may be named as a defendant in lawsuits filed by a former employee or its clients. At June 30, 2006, the Company does not believe that any claims have merit and intends to vigorously defend its position for all outstanding claims.