

**THE ROCHELLE CENTER
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2005 AND 2004**

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BLANKENSHIP CPA GROUP, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Rochelle Center

We have audited the accompanying statements of financial position of The Rochelle Center (a Tennessee not-for-profit corporation, the "Center") as of June 30, 2005 and 2004, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these 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 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 audits provide 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, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blankenship CPA Group, PLLC

September 23, 2005

THE ROCHELLE CENTER
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2005 AND 2004

ASSETS		2005	2004
Current assets:			
Cash and cash equivalents	\$	476,077	\$ 923,955
Investments, at fair value		548,419	39,696
Accounts receivable, net of allowance for doubtful accounts of \$5,004 in 2005 and 2004		412,985	228,917
Special event receivable		19,926	29,674
Prepaid expenses		<u>17,938</u>	<u>13,262</u>
Total current assets		1,475,345	1,235,504
Land, buildings and equipment, net		<u>1,485,062</u>	<u>1,118,144</u>
Total assets		<u><u>\$ 2,960,407</u></u>	<u><u>\$ 2,353,648</u></u>
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	\$	25,054	\$ 24,314
Accrued vacation and other accrued liabilities		100,104	93,294
Current portion of long-term debt		<u>7,900</u>	<u>5,325</u>
Total current liabilities		133,058	122,933
Long-term debt, net of current portion		<u>426,056</u>	<u>250,675</u>
Total liabilities		<u>559,114</u>	<u>373,608</u>
Net assets:			
Unrestricted:			
Undesignated		1,676,581	1,579,321
Designated by Board		<u>295,000</u>	<u>167,719</u>
Total unrestricted net assets		1,971,581	1,747,040
Temporarily restricted		<u>429,712</u>	<u>233,000</u>
Total net assets		<u>2,401,293</u>	<u>1,980,040</u>
Total liabilities and net assets		<u><u>\$ 2,960,407</u></u>	<u><u>\$ 2,353,648</u></u>

The accompanying notes are an integral part of these financial statements.

THE ROCHELLE CENTER
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2005 AND 2004

	2005			2004		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
Support and revenues:						
Contributions - Individual and Corporate	\$ 17,301	\$ -	\$ 17,301	\$ 35,529	\$ -	\$ 35,529
Contributions - Foundations	2,300	11,231	13,531	1,200	167,000	168,200
United Way	57,236	-	57,236	80,487	-	80,487
Government contracts and grants	1,958,277	232,098	2,190,375	1,510,832	66,000	1,576,832
Supported employment	87,433	-	87,433	93,384	-	93,384
Program fees	60,240	-	60,240	90,726	-	90,726
Rental income	55,292	-	55,292	35,394	-	35,394
Workshop sales	370,486	-	370,486	430,902	-	430,902
Transportation	6,700	-	6,700	11,762	-	11,762
Special events	75,284	-	75,284	108,747	-	108,747
Miscellaneous and interest	21,003	-	21,003	12,214	-	12,214
Net assets released from restrictions						
Restrictions satisfied by payments	46,617	(46,617)	-	-	-	-
Total Support and Revenues	2,758,169	196,712	2,954,881	2,411,177	233,000	2,644,177
Expenses:						
Program services						
Developmental services	572,900	-	572,900	522,646	-	522,646
Residential services	535,947	-	535,947	344,115	-	344,115
Vocational services	863,704	-	863,704	768,509	-	768,509
Memory Works program	131,375	-	131,375	123,009	-	123,009
Supported employment	50,274	-	50,274	109,711	-	109,711
Supporting services						
Fund raising	36,979	-	36,979	33,332	-	33,332
Management and general	342,449	-	342,449	342,136	-	342,136
Total Expenses	2,533,628	-	2,533,628	2,243,458	-	2,243,458
Increase in net assets	224,541	196,712	421,253	167,719	233,000	400,719
Net assets, beginning of year	1,747,040	233,000	1,980,040	1,579,321	-	1,579,321
Net assets, end of year	\$ 1,971,581	\$ 429,712	\$ 2,401,293	\$ 1,747,040	\$ 233,000	\$ 1,980,040

The accompanying notes are an integral part of these financial statements.

THE ROCHELLE CENTER
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2005

	PROGRAM SERVICES					SUPPORTING SERVICES		
	Developmental Services	Residential Services	Vocational Services	Memory Works Program	Supported Employ- ment	Fund Raising	Management and General	Total
Salaries	\$ 349,365	\$ 292,545	\$ 331,531	\$ 89,163	\$ 27,816	\$ 25,025	\$ 200,398	\$ 1,315,843
Employee benefits	66,037	56,129	65,401	16,961	7,735	4,580	36,706	253,549
Total salaries and benefits	415,402	348,674	396,932	106,124	35,551	29,605	237,104	1,569,392
Workshop wages and benefits	-	-	220,813	129	-	-	-	220,942
Contracted services	53,716	40,364	94,545	9,349	9,698	-	8,353	216,025
Depreciation	43,280	14,880	44,916	6,623	-	713	20,192	130,604
Supplies	21,059	37,195	24,688	4,681	226	5,476	4,509	97,834
Utilities	21,447	15,658	30,813	1,966	1,951	-	505	72,340
Rental	2,758	23,019	27,635	46	307	-	2,639	56,404
Taxes and insurance	-	5,656	-	-	-	-	35,365	41,021
Repairs and maintenance	5,726	12,742	12,884	676	1,347	-	6,519	39,894
Communications	3,593	7,618	6,750	944	649	370	6,547	26,471
Professional fees	3,211	1,965	2,467	616	192	815	11,250	20,516
Interest	-	17,205	-	-	-	-	-	17,205
Travel and local transportation	471	8,035	374	-	272	-	9	9,161
Bad debts	-	-	-	-	-	-	8,868	8,868
Training	2,237	2,095	589	221	76	-	5	5,223
Miscellaneous	-	841	298	-	5	-	584	1,728
	<u>\$ 572,900</u>	<u>\$ 535,947</u>	<u>\$ 863,704</u>	<u>\$ 131,375</u>	<u>\$ 50,274</u>	<u>\$ 36,979</u>	<u>\$ 342,449</u>	<u>\$ 2,533,628</u>

The accompanying notes are an integral part of these financial statements.

THE ROCHELLE CENTER
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2004

	PROGRAM SERVICES					SUPPORTING SERVICES		
	Developmental Services	Residential Services	Vocational Services	Memory Works Program	Supported Employ- ment	Fund Raising	Management and General	Total
Salaries	\$ 330,695	\$ 156,052	\$ 245,912	\$ 86,756	\$ 77,920	\$ 24,275	\$ 216,706	\$ 1,138,316
Employee benefits	64,232	38,682	45,414	16,749	20,110	4,443	36,411	226,041
Total salaries and benefits	394,927	194,734	291,326	103,505	98,030	28,718	253,117	1,364,357
Workshop wages and benefits	747	-	229,014	356	-	-	-	230,117
Contracted services	34,350	48,529	105,899	4,159	5,026	-	6,944	204,907
Depreciation	35,973	12,368	37,334	5,505	-	593	16,783	108,556
Supplies	20,545	5,894	35,203	4,207	315	3,783	3,115	73,062
Rental	2,822	37,800	24,818	-	-	-	330	65,770
Utilities	14,324	23,973	21,796	2,551	1,019	-	1,429	65,092
Taxes and insurance	-	-	-	-	-	-	28,414	28,414
Communications	5,786	4,534	6,493	1,284	1,534	38	8,216	27,885
Repairs and maintenance	6,481	2,683	10,844	376	1,522	-	4,509	26,415
Professional fees	2,774	1,578	3,251	863	952	-	15,028	24,446
Travel and local transportation	1,043	8,967	201	-	747	-	22	10,980
Training	2,874	1,051	846	203	566	-	3,459	8,999
Miscellaneous	-	2,004	708	-	-	200	770	3,682
Bad debts	-	-	776	-	-	-	-	776
	<u>\$ 522,646</u>	<u>\$ 344,115</u>	<u>\$ 768,509</u>	<u>\$ 123,009</u>	<u>\$ 109,711</u>	<u>\$ 33,332</u>	<u>\$ 342,136</u>	<u>\$ 2,243,458</u>

The accompanying notes are an integral part of these financial statements.

THE ROCHELLE CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
Cash flows from operating activities:		
Increase in net assets	\$ 421,253	\$ 400,719
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	130,604	108,556
Unrealized gain on investments	(363)	(358)
Donated investments included in special events	(1,706)	(1,630)
Donated equipment	(5,741)	-
Increase in accounts receivable	(184,068)	(110,328)
(Increase) decrease in special event receivable	9,748	(24,002)
Increase in prepaid expenses	(4,676)	(5,882)
Increase in accounts payable	740	114
Increase in accrued vacation and other accrued liabilities	6,810	9,445
Decrease in deferred revenue	-	(40,000)
Net cash provided by operating activities	<u>372,601</u>	<u>336,634</u>
Cash flows from investing activities:		
Purchase of investments	(508,229)	-
Purchase of building and equipment	(491,781)	(390,345)
Proceeds from sale of investments	<u>1,575</u>	<u>-</u>
Net cash used by investing activities	<u>(998,435)</u>	<u>(390,345)</u>
Cash flows from financing activities:		
Proceeds from notes payable	184,717	256,000
Payments on notes payable	<u>(6,761)</u>	<u>-</u>
Net cash provided by investing activities	<u>177,956</u>	<u>256,000</u>
Net (decrease) increase in cash and cash equivalents	(447,878)	202,289
Cash and cash equivalents, beginning of year	<u>923,955</u>	<u>721,666</u>
Cash and cash equivalents, end of year	<u><u>\$ 476,077</u></u>	<u><u>\$ 923,955</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 17,205</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**THE ROCHELLE CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

The Rochelle Center (the "Center") is a not-for-profit organization, located in Davidson County, Tennessee. The Center's mission is to enable persons with disabilities to achieve their highest level of functioning and to assist their families or care givers in acquiring needed services, training and support.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of The Rochelle Center have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support and revenues depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

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.

Concentration of Credit Risk

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

**THE ROCHELLE CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets 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 as instructed by the donor. The Center reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated Services

The Center has received no significant amount of donated services; therefore, no amounts have been included in the financial statements.

Cash and Cash Equivalents

The Center considers its cash equivalents to include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less, which are stated at cost.

Investments

The Center carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding accounts.

Income Taxes

The Center is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

**THE ROCHELLE CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts from the prior year have been reclassified to conform with current year presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities and changes therein and the disclosures of commitments and contingencies. Actual results could differ from those estimates.

NOTE 3 - INVESTMENTS

	2005		2004	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Certificates of Deposits	\$ 545,229	\$ 545,229	\$ 37,000	\$ 37,000
Stocks	<u>1,906</u>	<u>3,190</u>	<u>1,830</u>	<u>2,696</u>
	<u>\$ 547,135</u>	<u>\$ 548,419</u>	<u>\$ 38,830</u>	<u>\$ 39,696</u>

THE ROCHELLE CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 4 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment are recorded at cost. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

A portion of the land, buildings and equipment of the Center is subject to the reversionary interest held by various governmental units in the assets, as well as any proceeds from their disposition.

The balances of the major classes of land and depreciable assets are as follows.

	2005	2004
Land	\$ 41,050	\$ 41,050
Buildings and improvements	1,882,124	1,422,027
Equipment	<u>898,086</u>	<u>860,661</u>
	2,821,260	2,323,738
Less accumulated depreciation	<u>(1,336,198)</u>	<u>(1,205,594)</u>
Net	<u>\$ 1,485,062</u>	<u>\$ 1,118,144</u>

THE ROCHELLE CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following:

	2005	2004
First mortgage note payable to US Bank with a maturity of June 2, 2009. Interest and principal in the amount of \$1,162 are payable monthly based on a 25 year amortization with interest at 4.94%. The note is collateralized by real and personal property located at 1132 Graycroft Avenue, Madison, Tennessee.	\$ 195,980	\$ 200,000
First mortgage note payable to US Bank with a maturity of June 2, 2009. Interest and principal in the amount of \$325 are payable monthly based on a 25 year amortization with interest at 4.94%. The note is collateralized by real and personal property located at 1088 12 th Avenue, South, Nashville, Tennessee.	54,874	56,000
First mortgage note payable to Regions Bank with a maturity of July 15, 2009. Interest and principal in the amount of \$464 are payable monthly with interest at prime – 1% (5.50% at June 30, 2005). The note is collateralized by real and personal property located at 7244 Old Harding Pike, Nashville, Tennessee.	93,257	-
First mortgage note payable to Regions Bank with a maturity of May 26, 2010. Interest and principal in the amount of \$530 are payable monthly with interest at 1% below index (5.0% at June 30, 2005). The note is collateralized by real and personal property located at 209 Wellington Drive, Madison, Tennessee.	89,845	-
	433,956	256,000
Less: current maturities	7,900	5,325
	<u>\$ 426,056</u>	<u>\$ 250,675</u>

THE ROCHELLE CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 5 - LONG-TERM DEBT (CONTINUED)

A summary of annual principal requirements follows:

Year Ending June 30, <u> </u>	
2006	\$ 7,900
2007	8,304
2008	8,729
2009	235,903
2010	<u>173,120</u>
	<u>\$ 433,956</u>

NOTE 6 - BOARD DESIGNATED NET ASSETS

The Board designated net assets are to be used solely at the discretion of the board. Board designated net assets consist of the following at June 30:

	2005	2004
W.R. Rochelle Foundation	\$ 50,000	\$ 50,000
Endowment Fund	5,000	5,000
Capital repairs and equipment purchases	<u>240,000</u>	<u>112,719</u>
	<u>\$ 295,000</u>	<u>\$ 167,719</u>

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following periods and purposes:

	2005	2004
For periods after June 30, 2005	\$ 286,631	\$ 66,000
Equipment and building additions	80,081	104,000
Program assistance	<u>63,000</u>	<u>63,000</u>
	<u>\$ 429,712</u>	<u>\$ 233,000</u>

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Center receives a substantial amount of its support and revenues from government agencies. A significant reduction in the level of this support, if this were to occur, may have an affect on the Center's programs and activities. In addition, the funding received by the Center from government agencies is subject to audit and retroactive adjustment. The Center has been audited and accepted for the year ended June 30, 2004.