

THE ROCHELLE CENTER AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

WITH SUPPLEMENTARY INFORMATION

JUNE 30, 2012 AND 2011

(With Independent Auditor's Report Thereon)

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CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Audited Financial Statements:	
Consolidated Statements of Financial Position	2 - 3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5 - 7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9 - 15
Independent Auditor's Report on Supplementary Information	16
Consolidating Statements of Financial Position	17 - 18
Consolidating Statements of Activities	19
Consolidating Statements of Cash Flows	20



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Rochelle Center and Subsidiary

We have audited the accompanying consolidated statements of financial position of The Rochelle Center and Subsidiary (a nonprofit organization) as of June 30, 2012 and 2011, and the related consolidated statements of activities, functional expenses, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization'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 examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements 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 The Rochelle Center and Subsidiary as of June 30, 2012 and 2011, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Patterson Hardee & Ballentine
August 24, 2012

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash	\$ 544,620	\$ 357,459
Certificates of deposit	-	221,694
Receivables, net of allowance for doubtful accounts of \$500 and \$19,232, respectively	307,311	339,467
Inventory	3,669	4,566
Prepaid expenses	27,894	36,311
Total current assets	<u>883,494</u>	<u>959,497</u>
Property and Equipment:		
Land	41,051	41,051
Buildings	2,393,668	2,368,135
Leasehold improvements	20,446	20,446
Equipment	<u>1,377,157</u>	<u>1,382,564</u>
	3,832,322	3,812,196
Less: accumulated depreciation	<u>(2,535,639)</u>	<u>(2,361,244)</u>
Total property and equipment	<u>1,296,683</u>	<u>1,450,952</u>
Assets Whose Use is Limited:		
Cash - restricted by the donor	22,000	30,826
Investments - Community Foundation of Middle TN	6,435	6,063
Cash - designated by the board of directors	300,000	300,000
Buildings	<u>229,802</u>	<u>255,335</u>
Total assets whose use is limited	<u>558,237</u>	<u>592,224</u>
Total assets	<u>\$ 2,738,414</u>	<u>\$ 3,002,673</u>

See accompanying notes to the consolidated financial statements.

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
JUNE 30, 2012 AND 2011

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Current Liabilities:		
Current installments of long-term debt	\$ 320,239	\$ 109,743
Accounts payable	51,804	108,313
Accrued expenses	107,693	92,286
Total current liabilities	<u>479,736</u>	<u>310,342</u>
Long-term debt, net of current installments	<u>358,685</u>	<u>588,378</u>
Total liabilities	<u>838,421</u>	<u>898,720</u>
Net Assets:		
Unrestricted:		
Undesignated	1,341,756	1,511,729
Board-designated	300,000	300,000
Total unrestricted net assets	<u>1,641,756</u>	<u>1,811,729</u>
Temporarily restricted	251,802	286,161
Permanently restricted	6,435	6,063
Total restricted net assets	<u>258,237</u>	<u>292,224</u>
Total net assets	<u>1,899,993</u>	<u>2,103,953</u>
Total liabilities and net assets	<u>\$ 2,738,414</u>	<u>\$ 3,002,673</u>

See accompanying notes to consolidated financial statements.

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012</u>	<u>2011</u>
Support and Revenues:					
Contributions	\$ 10,552	\$ -	\$ -	\$ 10,552	\$ 61,739
United way	34,022	-	-	34,022	35,912
Government grants and contracts	2,504,398	-	-	2,504,398	2,172,437
Supported employment	8,984	-	-	8,984	12,577
Program fees	6,165	-	-	6,165	2,790
Residential income	134,860	-	-	134,860	165,473
Workshop sales	467,509	-	-	467,509	517,902
Freight revenue	11,455	-	-	11,455	12,501
Special events	26,006	-	-	26,006	173,397
Interest and investment income, net	2,588	-	421	3,009	17,679
Miscellaneous	19,467	-	-	19,467	1,302
Net assets released from restrictions	49	-	(49)	-	-
Total support and revenues	<u>3,226,055</u>	<u>-</u>	<u>372</u>	<u>3,226,427</u>	<u>3,173,709</u>
Expenses:					
Program services:					
Developmental services	444,484	-	-	444,484	346,225
Residential services	1,387,135	-	-	1,387,135	1,294,718
Production center	1,079,143	-	-	1,079,143	1,219,244
Supported employment	<u>156,299</u>	<u>-</u>	<u>-</u>	<u>156,299</u>	<u>159,148</u>
Total program services	<u>3,067,061</u>	<u>-</u>	<u>-</u>	<u>3,067,061</u>	<u>3,019,335</u>
Supporting services:					
Management and general	350,995	-	-	350,995	375,515
Fundraising	<u>12,331</u>	<u>-</u>	<u>-</u>	<u>12,331</u>	<u>117,708</u>
Total supporting services	<u>363,326</u>	<u>-</u>	<u>-</u>	<u>363,326</u>	<u>493,223</u>
Total expenses	<u>3,430,387</u>	<u>-</u>	<u>-</u>	<u>3,430,387</u>	<u>3,512,558</u>
Increase (decrease) in net assets	(204,332)	-	372	(203,960)	(338,849)
Net assets - beginning of year	<u>1,811,729</u>	<u>286,161</u>	<u>6,063</u>	<u>2,103,953</u>	<u>2,442,802</u>
Reclassification	<u>34,359</u>	<u>(34,359)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets - end of year	<u>\$ 1,641,756</u>	<u>\$ 251,802</u>	<u>\$ 6,435</u>	<u>\$ 1,899,993</u>	<u>\$ 2,103,953</u>

See accompanying notes to the consolidated financial statements.

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	Program Services					
	Developmental Services		Residential Services		Production Center	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Salaries	\$ 305,094	\$ 226,888	\$ 792,734	\$ 538,158	\$ 350,060	\$ 384,824
Payroll taxes and benefits	40,153	28,611	146,305	95,550	66,352	72,631
Total personnel costs	345,247	255,499	939,039	633,708	416,412	457,455
Bad debts	-	-	2,250	2,700	900	1,200
Bank fees	6,714	6,006	-	-	-	-
Communications	3,934	3,615	24,567	23,571	15,541	14,503
Contracted services	26,521	20,436	51,291	45,388	98,162	119,012
Dues and subscriptions	403	637	40	-	1,388	2,156
Insurance	12,346	8,805	18,179	16,025	23,861	21,935
Interest	-	-	36,279	38,543	-	-
Miscellaneous	2,312	941	11,122	14,284	10,102	7,545
Professional fees	308	1,555	53,387	15,624	4,427	6,575
Rent	1,630	1,725	3,754	3,662	45,623	100,717
Repairs and maintenance	22,746	26,777	40,869	119,755	20,050	24,679
Special events	-	-	-	-	-	-
Supplies	5,680	2,247	56,687	51,704	152,051	151,512
Travel and transportation	2,056	1,231	23,860	11,725	10,173	12,013
Utilities	12,696	15,712	53,237	58,831	40,267	45,510
Workshop wages and benefits	-	-	-	-	138,469	148,273
Depreciation	1,891	1,039	72,574	88,536	101,717	106,159
Repayment of MDHA monies	-	-	-	137,282	-	-
Loss on sale of fixed assets	-	-	-	33,380	-	-
Total expenses	\$ 444,484	\$ 346,225	\$ 1,387,135	\$ 1,294,718	\$ 1,079,143	\$ 1,219,244

See accompanying notes to the consolidated financial statements.

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (continued)
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>Program Services</u>		<u>Supported Employment</u>		<u>Total Program Services</u>	
	<u>2012</u>		<u>2011</u>		<u>2012</u>	<u>2011</u>
Salaries	\$ 43,117	\$	59,492	\$	1,491,005	\$ 1,209,362
Payroll taxes and benefits	12,507		8,452		265,317	205,244
Total personnel costs	55,624		67,944		1,756,322	1,414,606
Bad debts	-		-		3,150	3,900
Bank fees	-		-		6,714	6,006
Communications	-		-		44,042	41,689
Contracted services	18,199		10,202		194,173	195,038
Dues and subscriptions	-		-		1,831	2,793
Insurance	5,336		6,320		59,722	53,085
Interest	-		-		36,279	38,543
Miscellaneous	1,281		1,115		24,817	23,885
Professional fees	32,765		31,528		90,887	55,282
Rent	-		-		51,007	106,104
Repairs and maintenance	1,789		1,983		85,454	173,194
Special events	-		-		-	-
Supplies	-		2,225		214,418	207,688
Travel and transportation	2,664		3,844		38,753	28,813
Utilities	-		-		106,200	120,053
Workshop wages and benefits	32,677		33,987		171,146	182,260
Depreciation	5,964		-		182,146	195,734
Repayment of MDHA monies	-		-		-	137,282
Loss on sale of fixed assets	-		-		-	33,380
Total expenses	\$ 156,299	\$	159,148	\$	3,067,061	\$ 3,019,335

See accompanying notes to the consolidated financial statements.

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (continued)
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	Supporting Services					
	Management and General		Fundraising		Total Functional Expenses	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Salaries	\$ 242,545	\$ 242,536	\$ -	\$ -	\$ 1,733,550	\$ 1,451,898
Payroll taxes and benefits	68,649	66,387	-	-	333,966	271,631
Total personnel costs	311,194	308,923	-	-	2,067,516	1,723,529
Bad debts	-	-	-	-	-	-
Bank fees	-	-	-	-	3,150	3,900
Communications	-	-	-	-	6,714	6,006
Contracted services	529	336	-	-	44,042	41,689
Dues and subscriptions	165	370	-	-	194,702	195,374
Insurance	8,414	8,155	-	-	1,996	3,163
Interest	-	-	-	-	68,136	61,240
Miscellaneous	7,903	1,647	-	-	36,279	38,543
Professional fees	13,915	16,240	366	991	33,086	26,523
Rent	-	-	-	-	104,802	71,522
Repairs and maintenance	8,237	35,856	-	-	51,007	106,104
Special events	-	-	-	-	93,691	209,050
Supplies	519	2,799	11,965	116,717	11,965	116,717
Travel and transportation	55	1,189	-	-	214,937	210,487
Utilities	-	-	-	-	38,808	30,002
Workshop wages and benefits	64	-	-	-	106,200	120,053
Depreciation	-	-	-	-	171,210	182,260
Repayment of MDHA monies	-	-	-	-	182,146	195,734
Loss on sale of fixed assets	-	-	-	-	-	137,282
	-	-	-	-	-	33,380
Total expenses	\$ 350,995	\$ 375,515	\$ 12,331	\$ 117,708	\$ 3,430,387	\$ 3,512,558

See accompanying notes to the consolidated financial statements.

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities:		
Decrease in net assets	\$ (203,960)	\$ (338,849)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	182,145	195,734
Loss on sale of equipment	-	33,380
Reinvested interest income	-	(15,835)
Allowance for doubtful accounts	(18,732)	2,945
Assets whose use is limited	8,204	134,320
Changes in:		
Accounts receivable	50,888	(117,457)
Inventory	897	-
Prepaid expenses	8,417	(7,196)
Accounts payable	(56,509)	(4,947)
Accrued expenses	15,407	31,660
Total adjustments	<u>190,717</u>	<u>252,604</u>
Net cash used in operating activities	<u>(13,243)</u>	<u>(86,245)</u>
Cash Flows from Investing Activities:		
Purchases of certificates of deposit	-	(220,000)
Proceeds from maturities of certificates of deposit	221,694	630,936
Proceeds from sale of stock	-	8,000
Cash paid on sale of home	-	(30,369)
Purchases of equipment	(2,093)	(4,138)
Net cash provided by investing activities	<u>219,601</u>	<u>384,429</u>
Cash Flows from Financing Activities:		
Payments on long-term debt	(19,197)	(18,575)
Net cash used in financing activities	<u>(19,197)</u>	<u>(18,575)</u>
Net increase in cash	187,161	279,609
Cash - beginning of year	<u>357,459</u>	<u>77,850</u>
Cash - end of year	<u>\$ 544,620</u>	<u>\$ 357,459</u>

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the year ended June 30, 2012 and 2011, was \$36,279 and \$38,543, respectively.

During the years ended June 30, 2012 and 2011, there were noncash releases from restrictions in the amounts of \$25,533 and \$135,362, respectively.

See accompanying notes to the consolidated financial statements.

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 - Summary of Significant Accounting Policies

a. **Nature of Activities**

Rochelle Center (the "Center") is a nonprofit organization located in Nashville, Tennessee. For over 30 years, we have 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. The majority of our revenue is determined by the state through Medicaid at set reimbursement rates which have remained unchanged since 2005.

We are the sole member of Bagel Works and Perks (BWP), a nonprofit Tennessee limited liability company. BWP operates a restaurant in Brentwood, Tennessee, for the purpose of providing job training for consumers of The Rochelle Center to work in the restaurant industry.

The terms "we" "our" and "us" are also used throughout these notes to the consolidated financial statements to identify both The Rochelle Center (the "Center") and its subsidiary Bagel Works and Perks.

b. **Program Services**

The following program services are included in the accompanying consolidated financial statements:

Developmental Services - To provide meaningful day activities through facility and community based services to adults with severe to profound disabilities.

Residential Services - Provide community based supported living homes supporting up to three adults with severe to moderate intellectual disabilities. The emphasis of the program is on normalized, home environment with the consumers assuming household responsibilities and participation to the extent of their abilities.

Production Center - The production center offers work skill development opportunities on a variety of contracts from a diverse set of businesses in the Nashville community. Placement in the work community is designed to advance the skills learned and provide employment for individuals.

Supported Employment - Offer work and skill development opportunities and a means to earn training wages for disadvantaged or disabled people who cannot otherwise find work training programs.

c. **Basis of Presentation**

The accompanying consolidated 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, our net assets and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations which may or will be met, either by our actions and/or the passage of time. Restrictions 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 permanent donor-imposed stipulations. Generally, the donors of these assets permit us to use all or part of the income earned on any related investments for general or specific purposes.

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 - Summary of Significant Accounting Policies (continued)

c. Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, we consider all investment instruments purchased with original maturities of three months or less to be cash equivalents. At June 30, 2012 and 2011, there were no cash equivalents.

d. Principles of Consolidation

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. We consolidate all entities controlled by ownership of a majority voting interest. As of June 30, 2012 and 2011, the Center owns 100% of BWP, all activities of BWP have been consolidated, and all inter-company transactions have been eliminated in accordance with generally accepted accounting principles.

e. Accounts Receivable

We record receivables from promises to give when they are pledged. For the years ended June 30, 2012 and 2011, there were no pledges included in accounts receivable. Bad debts are recognized on the allowance method based on historical experience and our evaluation of outstanding accounts. An allowance of \$500 and \$19,232 has been made for the years ended June 30, 2012 and 2011, respectively.

f. Inventory

Inventory is recorded at the lower of cost (first-in, first-out method) or market.

g. 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. Our capitalization policy is to capitalize any expenditure 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 which 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, we report expirations of donor restrictions when the donated or acquired assets are placed in service and also reclassify the temporarily restricted net assets to unrestricted net assets concurrently.

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.

h. Income Tax Status

We are a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and we are 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 consolidated financial statements. We are the sole member of Bagel Works and Perks, which is a nonprofit Tennessee limited liability company and is exempt from Tennessee Franchise and Excise tax. The Internal Revenue Service considers BWP to be a disregarded entity.

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 ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 - Summary of Significant Accounting Policies (continued)

h. Income Tax Status (continued)

The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. As of June 30, 2012 and 2011, we have recognized no liabilities for uncertain tax positions.

We recognize interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. We have no amounts accrued for interest or penalties as of June 30, 2012 and 2011. We are no longer subject to examination by U.S. federal and state taxing authorities for years before 2008.

i. Functional Allocation of Expenses

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

j. Use of Estimates

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

k. Revenue Recognition

We recognize fee income in the period in which services are provided to consumers based on a contractual rate per client per day. The majority of our fee income is from the State of Tennessee. Rates paid to us are determined by the State of Tennessee per client based on the level of care required. There have been no rate increases since 2005.

l. Reclassifications

Certain reclassifications of prior year amounts have been made to conform to the current year presentation.

NOTE 2 - Accounts Receivable

At June 30, 2012 and 2011, we were due the following amounts:

	<u>2012</u>	<u>2011</u>
Production contracts	\$ 40,305	\$ 32,618
Tennessee Department of Intellectual Disabilities Services	236,385	258,819
Residential	26,495	29,564
Special events	-	35,496
Bagel Works	4,626	2,202
	<u>307,811</u>	<u>358,699</u>
Less: allowance for bad debts	<u>(500)</u>	<u>(19,232)</u>
	<u>\$ 307,311</u>	<u>\$ 339,467</u>

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 3 -- Certificate of Deposit

At June 30, 2011, we held one certificate of deposit as shown below:

Certificate of deposit with a rate of .99%, which matured in February 2012	\$ <u>221,694</u>
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NOTE 4 - Net Assets

At June 30, 2012 and 2011, the Board of Directors has designated \$300,000 in net assets and cash to be used for future building and equipment purchases and repairs.

Also at June 30, 2012 and 2011, we held assets whose use was temporarily restricted by donors or grantors as follows:

	<u>2012</u>	<u>2011</u>
Residential Program - Buildings purchased with THDA grant	\$ 229,802	\$ 255,335
Memorials	-	4,800
Bar code equipment	-	4,026
Sensory garden	<u>22,000</u>	<u>22,000</u>
	<u>\$ 251,802</u>	<u>\$ 286,161</u>

Also at June 30, 2012 and 2011, the Community Foundation of Middle Tennessee, a non-profit organization, is in control of an endowment fund for the Rochelle Center. The Foundation has ultimate authority and control over all property of the fund and the income derived therefrom; however, the endowment is considered to be a reciprocal transfer and is therefore recorded as a permanently restricted asset on the Consolidated Statements of Financial Position of the Organization. The balance of the fund at June 30, 2012 and 2011, was \$6,435 and \$6,063, respectively.

The activity in the Community Foundation endowment for the Center is as follows:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ <u>6,063</u>	\$ <u>5,021</u>
Contributions	500	-
Interest income	100	104
Realized gain	55	143
Unrealized loss	(234)	835
Administrative fees	(25)	(23)
Investment fees	<u>(24)</u>	<u>(17)</u>
	<u>372</u>	<u>1,042</u>
Balance, end of year	<u>\$ 6,435</u>	<u>\$ 6,063</u>

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 5 - Accrued Expenses

At June 30, 2012 and 2011, expenses were accrued for the following:

	<u>2012</u>	<u>2011</u>
Accrued paid time off	\$ 18,577	\$ 27,290
Accrued wages payable	72,080	47,205
Accrued retirement contribution expense	5,000	-
Deferred revenue	1,500	-
Other accruals	10,536	17,791
	<u>\$ 107,693</u>	<u>\$ 92,286</u>

NOTE 6 - Long-term Debt

Long-term debt at June 30, 2012 and 2011, consists of the following:

	<u>2012</u>	<u>2011</u>
First mortgage note payable to U.S. Bank with a maturity of June 2, 2014. Monthly payments of \$1,207 are required based on 238 months amortization with interest at 5.25%. The note is collateralized by real and personal property with a net book value of \$194,199.	\$ 162,327	\$ 167,987
First mortgage note payable to U.S. Bank with a maturity of June 2, 2014. 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 with a net book value of \$103,539.	45,439	47,023
First mortgage note payable to Avenue Bank with a maturity of April 16, 2013. Monthly payments of \$1,587 are required based on a 5 year amortization with interest at 5.5%. The note is collateralized by real and personal property with a net book value of \$431,549.	234,218	240,010
First mortgage note payable to Avenue Bank with a maturity of March 12, 2013. Monthly payments of \$495 are required based on a 5 year amortization with interest at 5.5%. The note is collateralized by real and personal property with a net book value of \$93,977.	72,733	74,557
First mortgage note payable to an individual with a maturity of November 2, 2015. Monthly payments of \$550 are required, including 5% interest. The remaining principal amount is due in November 2015. The note is collateralized by real property with a net book value of \$117,135.	89,949	92,550
First mortgage note payable to Avenue Bank with a maturity of December 29, 2013. Monthly payments of \$494 are required with interest at 5.5%. The note is collateralized by real property with a net book value of \$107,831.	74,258	75,994
	678,924	698,121
Less: current maturities	(320,239)	(109,743)
	<u>\$ 358,685</u>	<u>\$ 588,378</u>

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 6 - Long-term Debt (continued)

The following is a schedule of future maturities:

Year Ending June 30,

2013	\$ 320,239
2014	233,990
2015	5,674
2016	81,012
2017	2,098
Thereafter	<u>35,911</u>
	<u>\$ 678,924</u>

NOTE 7 - Lease Agreement

We lease various office equipment and real property under lease arrangements classified as operating leases. Most of our leases are on a month-to-month or as needed basis. We have one lease with a fixed term and the payments are \$554 payable monthly. This lease expires in September 2013. Total rent expense for the year ended June 30, 2012 and 2011, was \$51,007 and \$106,104 respectively.

Future minimum lease payments are as follows:

Year Ending June 30,

2013	\$ 6,648
2014	<u>1,662</u>
	<u>\$ 8,310</u>

NOTE 8 - Concentrations and Contingencies

Revenue Sources

We receive a substantial amount of our support and revenues from governmental agencies. A significant reduction in the level of this support may reflect on our future programs and activities. In addition, the funding received from the governmental agencies is subject to audit and retroactive adjustment by the governmental agencies. At June 30, 2012 and 2011, there was a concentration of 77% and 76% of total receivables due from the State, respectively.

Accounts Payable

At June 30, 2012 and 2011, we owed one vendor 50% and 49% of our total accounts payable, respectively.

NOTE 9 - Retirement Plan

We sponsor a tax-deferred annuity plan ("Plan") under Section 403(b) of the Internal Revenue Code. In the year ended June 30, 2012, we made a discretionary employer match for the Plan. Expenses for the Plan during the years ending June 30, 2012 and 2011, are \$5,000 and \$0, respectively.

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 10 - Subsequent Events

We have evaluated events subsequent to the years ending June 30, 2012 and 2011. As of August 24, 2012, the date that the consolidated financial statements were available to be issued, no events subsequent to the Consolidated Statements of Financial Position date are considered necessary to be included in the consolidated financial statements for the years ended June 30, 2012 and 2011.



PATTERSON, HARDEE & BALLENTINE, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

To the Board of Trustees
of The Rochelle Center and Subsidiary

We have audited the consolidated financial statements of The Rochelle Center and Subsidiary as of and for the years ended June 30, 2012 and 2011, and our report thereon dated August 24, 2012, which expressed an unqualified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 17-20 are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Patterson Hardee & Ballentine

August 24, 2012

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS

	<u>The Rochelle Center</u>	<u>Bagel Works</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current Assets:				
Cash	\$ 456,516	\$ 88,104	\$ -	\$ 544,620
Certificates of deposit	-	-	-	-
Receivables, net of allowance for doubtful doubtful accounts of \$500	342,308	7,054	(42,051)	307,311
Inventory	-	3,669	-	3,669
Prepaid expenses	21,696	6,198	-	27,894
Total current assets	<u>820,520</u>	<u>105,025</u>	<u>(42,051)</u>	<u>883,494</u>
Investment in Bagel Works	<u>94,189</u>	<u>-</u>	<u>(94,189)</u>	<u>-</u>
Property and Equipment:				
Land	41,051	-	-	41,051
Buildings	2,393,668	-	-	2,393,668
Leasehold improvements	-	20,446	-	20,446
Equipment	1,294,294	82,863	-	1,377,157
	<u>3,729,013</u>	<u>103,309</u>	<u>-</u>	<u>3,832,322</u>
Less: accumulated depreciation	<u>(2,475,473)</u>	<u>(60,166)</u>	<u>-</u>	<u>(2,535,639)</u>
	<u>1,253,540</u>	<u>43,143</u>	<u>-</u>	<u>1,296,683</u>
Assets Whose Use is Limited:				
Cash - restricted by the donor	22,000	-	-	22,000
Investments - Community Foundation of Middle TN	6,435	-	-	6,435
Cash - designated by the board	300,000	-	-	300,000
Buildings	229,802	-	-	229,802
Total assets whose use is limited	<u>558,237</u>	<u>-</u>	<u>-</u>	<u>558,237</u>
	<u>\$ 2,726,486</u>	<u>\$ 148,168</u>	<u>\$ (136,240)</u>	<u>\$ 2,738,414</u>

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION (continued)
JUNE 30, 2012

LIABILITIES AND NET ASSETS

	<u>The Rochelle Center</u>	<u>Bagel Works</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current Liabilities:				
Current portion of long-term debt	\$ 320,239	\$ -	\$ -	\$ 320,239
Accounts payable	45,159	48,696	(42,051)	51,804
Accrued expenses	102,410	5,283	-	107,693
Total current liabilities	<u>467,808</u>	<u>53,979</u>	<u>(42,051)</u>	<u>479,736</u>
Long-term debt, net of current current installments	<u>358,685</u>	<u>-</u>	<u>-</u>	<u>358,685</u>
	<u>826,493</u>	<u>53,979</u>	<u>(42,051)</u>	<u>838,421</u>
Net Assets:				
Unrestricted:				
Unrestricted net assets	1,341,756	-	-	1,341,756
Unrestricted board- designated	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>300,000</u>
Total unrestricted	<u>1,641,756</u>	<u>-</u>	<u>-</u>	<u>1,641,756</u>
Restricted:				
Temporarily restricted	251,802	-	-	251,802
Permanently restricted	<u>6,435</u>	<u>-</u>	<u>-</u>	<u>6,435</u>
Total restricted	<u>258,237</u>	<u>-</u>	<u>-</u>	<u>258,237</u>
Member's equity	<u>-</u>	<u>94,189</u>	<u>(94,189)</u>	<u>-</u>
Total net assets	<u>1,899,993</u>	<u>94,189</u>	<u>(94,189)</u>	<u>1,899,993</u>
	<u>\$ 2,726,486</u>	<u>\$ 148,168</u>	<u>\$ (136,240)</u>	<u>\$ 2,738,414</u>

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	The Rochelle Center	Bagel Works	Eliminations	Total
Support and Revenues:				
Contributions	\$ 10,552	\$ -	\$ -	\$ 10,552
United way	3,086	30,936	-	34,022
Government grants and contracts	2,504,398	-	-	2,504,398
Supported employment	8,984	-	-	8,984
Program fees	6,165	-	-	6,165
Residential income	134,860	-	-	134,860
Workshop sales	199,541	270,471	(2,503)	467,509
Freight revenue	11,455	-	-	11,455
Special events	26,006	-	-	26,006
Interest and investment income	2,889	120	-	3,009
Miscellaneous	19,467	-	-	19,467
Total support and revenues	<u>2,927,403</u>	<u>301,527</u>	<u>(2,503)</u>	<u>3,226,427</u>
Expenses:				
Program services:				
Developmental services	436,241	8,243	-	444,484
Residential services	1,387,135	-	-	1,387,135
Production center	775,766	305,880	(2,503)	1,079,143
Supported employment	146,919	9,380	-	156,299
Total program services	<u>2,746,061</u>	<u>323,503</u>	<u>(2,503)</u>	<u>3,067,061</u>
Supporting services:				
Management and general	350,995	-	-	350,995
Fundraising	12,331	-	-	12,331
Total supporting services	<u>363,326</u>	<u>-</u>	<u>-</u>	<u>363,326</u>
Total expenses	<u>3,109,387</u>	<u>323,503</u>	<u>(2,503)</u>	<u>3,430,387</u>
Loss on subsidiary	<u>21,976</u>	<u>-</u>	<u>(21,976)</u>	<u>-</u>
Decrease in net assets	<u>(203,960)</u>	<u>(21,976)</u>	<u>21,976</u>	<u>(203,960)</u>
Balance at June 30, 2011	<u>2,103,953</u>	<u>116,165</u>	<u>(116,165)</u>	<u>2,103,953</u>
Balance at June 30, 2012	<u>\$ 1,899,993</u>	<u>\$ 94,189</u>	<u>\$ (94,189)</u>	<u>\$ 1,899,993</u>

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	The Rochelle Center	Bagel Works	Eliminations	Consolidated
Cash Flows from Operating Activities:				
Decrease in net assets	\$ (203,960)	\$ (21,976)	\$ 21,976	\$ (203,960)
Adjustments to reconcile decrease in net assets to cash provided by (used in) operating activities:				
Depreciation	164,453	17,692	-	182,145
Allowance for doubtful accounts	(18,732)	-	-	(18,732)
Assets whose use is limited	8,204	-	-	8,204
Changes in:				
Accounts receivable	13,689	(2,461)	39,660	50,888
Inventory	-	897	-	897
Prepaid expenses	4,684	3,733	-	8,417
Accounts payable	(54,931)	38,082	(39,660)	(56,509)
Accrued expenses	15,608	(201)	-	15,407
Total adjustments	132,975	57,742	-	190,717
Net cash provided by (used in) operating activities	(70,985)	35,766	21,976	(13,243)
Cash Flows from Investing Activities:				
Investment in subsidiary	21,976	-	(21,976)	-
Proceeds from maturities of certificates of deposit	221,694	-	-	221,694
Purchases of equipment	-	(2,093)	-	(2,093)
Net cash provided by (used in) investing activities	243,670	(2,093)	(21,976)	219,601
Cash Flows from Financing Activities:				
Payments on long-term debt	(19,197)	-	-	(19,197)
Net cash used in financing activities	(19,197)	-	-	(19,197)
Net increase in cash	153,488	33,673	-	187,161
Cash - beginning of year	303,028	54,431	-	357,459
Cash - end of year	\$ 456,516	\$ 88,104	\$ -	\$ 544,620