2017

Financial Statements

1889 General George Patton Drive Suite 200 · Franklin, TN 37067 · Phone 615-750-5537· Fax 615-750-5543 · www.phbcpas.com

THE ROCHELLE CENTER

FINANCIAL STATEMENTS

JUNE 30, 2017

WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2016

(With Independent Auditor's Report Thereon)

THE ROCHELLE CENTER
FINANCIAL STATEMENTS
JUNE 30, 2017
WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2016

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The Rochelle Center

Roster of Board of Directors

June 30, 2017

Roxanne Coats McDonald	Chair
Kevin Taylor	Vice Chair
Zach Saei	Treasurer
Regina Newsom	Secretary
Karen Blanchard	Board Member
James Bradshaw, III	Board Member
Benjamin Goldberg	Board Member
Kathleen, Byington	Board Member
Beverly Hanselman	Board Member
Mary Ann Hea	Board Member
Andrea Farr	Board Member
Tom Tribke	Board Member
Bill Torrence	Board Member
Eleanor Willis	Board Member
Robbie Landers	Board Member
Valerie Levay	Board Member

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PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Rochelle Center

Report on the Financial Statements

We have audited the accompanying financial statements of The Rochelle Center (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited The Rochelle Center's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 22, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017, on our consideration of The Rochelle Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Rochelle Center's internal control over financial reporting and compliance.

Patterson Hardee & Ballentine

October 27, 2017

THE ROCHELLE CENTER
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2016

ASSETS

	2017	2016
Current Assets:		
Cash	$ 474,397	$ 638,679
Investments	6,232	5,819
Receivables, net of allowance for doubtful accounts	360,807	378,755
Prepaid expenses	38,773	33,710
Total current assets	880,209	1,056,963
Property and Equipment:		
Land	41,051	41,051
Buildings	2,773,283	2,773,283
Equipment	1,501,543	1,472,890
	4,315,877	4,287,224
Less: accumulated depreciation	(2,982,665)	(2,887,365)
Total property and equipment, net	1,333,212	1,399,859
Assets Whose Use is Limited:		
Cash - designated by the board of directors	322,000	322,000
Restricted cash	10,702	23,512
Restricted investments - Community Foundation	9,235	8,358
Total assets whose use is limited	341,937	353,870
Total assets	$ 2,555,358	$ 2,810,692

See accompanying notes to the financial statements.

THE ROCHELLE CENTER
STATEMENT OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2017
WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2016

LIABILITIES AND NET ASSETS

	2017	2016
Current Liabilities:		
Current installments of long-term debt	$ 13,576	$ 75,220
Accounts payable	52,698	50,880
Accrued expenses	68,715	189,708
Total current liabilities	134,989	315,808
Long-term debt, net of current installments	418,069	432,658
Total liabilities	553,058	748,466
Net Assets:		
Unrestricted:		
Undesignated	1,660,363	1,708,356
Board-designated	322,000	322,000
Total unrestricted net assets	1,982,363	2,030,356
Temporarily restricted	10,702	23,512
Permanently restricted	9,235	8,358
Total restricted net assets	19,937	31,870
Total net assets	2,002,300	2,062,226
Total liabilities and net assets	$ 2,555,358	$ 2,810,692

See accompanying notes to the financial statements.

THE ROCHELLE CENTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	2016
Support and Revenues:					
Contributions	$ 31,438	$ 22,500	$ -	$ 53,938	$ 124,111
United Way	1,657	-	-	1,657	1,923
Government grants and contracts	2,652,788	-	-	2,652,788	2,608,202
Forgiveness of THDA grant note	62,307	-	-	62,307	-
Program fees	64,855	-	-	64,855	54,714
Residential income	210,915	-	-	210,915	202,515
Special events	221,191	-	-	221,191	284,783
Gain on sale of fixed asset	-	-	-	-	264,938
Investment income, net	954	-	877	1,831	1,116
Miscellaneous	821	-	-	821	840
Net assets released from restrictions	35,310	(35,310)	-	-	-
Total support and revenues	3,282,236	(12,810)	877	3,270,303	3,543,142
Expenses:					
Program services:					
Developmental services	539,035	-	-	539,035	542,653
Residential services	2,125,865	-	-	2,125,865	1,966,687
Supported employment	68,724	-	-	68,724	96,637
Total program services	2,733,624	-	-	2,733,624	2,605,977
Supporting services:					
Management and general	297,281	-	-	297,281	298,412
Fundraising	224,121	-	-	224,121	258,163
Total supporting services	521,402	-	-	521,402	556,575
Total expenses	3,255,026	-	-	3,255,026	3,162,552
Increase (decrease) in net assets from continuing operations	27,210	(12,810)	877	15,277	380,590
Discontinued operations (Note 12)	(75,203)	-	-	(75,203)	54,572
Increase (decrease) in net assets	(47,993)	(12,810)	877	(59,926)	435,162
Net assets - beginning of year	2,030,356	23,512	8,358	2,062,226	1,627,064
Net assets - end of year	$ 1,982,363	$ 10,702	$ 9,235	$ 2,002,300	$ 2,062,226

See accompanying notes to the financial statements.

THE ROCHELLE CENTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016

	Program Services					
	Developmental Services		Residential Services		Supported Employment	
	2017	2016	2017	2016	2017	2016
Salaries	$ 303,240	$ 336,023	$ 1,484,970	$ 1,228,937	$ 55,845	$ 74,491
Payroll taxes and benefits	38,714	36,163	207,151	305,148	10,882	13,457
Total personnel costs	341,954	372,186	1,692,121	1,534,085	66,727	87,948
Communications	3,681	5,774	44,759	41,219	-	-
Contracted services	52,201	40,663	39,279	37,138	300	1,777
Dues and subscriptions	2,245	1,744	840	186	-	577
Insurance	32,946	33,310	24,953	21,206	680	746
Interest	-	-	8,962	11,466	-	-
Miscellaneous	1,592	3,261	10,025	10,368	355	461
Professional fees	13,913	11,111	16,984	17,051	40	80
Rent	4,873	2,332	2,904	2,629	-	-
Repairs and maintenance	20,789	12,385	53,190	64,195	-	1,584
Special events	-	-	-	-	-	-
Supplies	9,313	11,310	57,194	67,729	28	259
Travel and transportation	7,643	5,222	44,872	35,631	183	2,712
Utilities	27,320	21,000	56,264	55,900	-	-
Workshop wages and benefits	-	-	-	-	-	-
Depreciation	20,565	22,355	73,518	67,884	411	493
Total expenses	$ 539,035	$ 542,653	$ 2,125,865	$ 1,966,687	$ 68,724	$ 96,637

See accompanying notes to the financial statements.

THE ROCHELLE CENTER
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016

	Total Program Services		Supporting Services: Management and General		Supporting Services: Fundraising	
	2017	2016	2017	2016	2017	2016
Salaries	$ 1,844,055	$ 1,639,451	$ 213,752	$ 220,156	$ 53,182	$ 51,573
Payroll taxes and benefits	256,747	354,768	38,160	50,936	13,678	16,557
Total personnel costs	2,100,802	1,994,219	251,912	271,092	66,860	68,130
Communications	48,440	46,993	-	-	-	-
Contracted services	91,780	79,578	567	210	-	-
Dues and subscriptions	3,085	2,507	773	265	2,161	496
Insurance	58,579	55,262	2,598	2,549	-	-
Interest	8,962	11,466	247	-	-	-
Miscellaneous	11,972	14,090	8,575	9,041	5,001	5,974
Professional fees	30,937	28,242	26,041	12,774	530	275
Rent	7,777	4,961	613	87	-	-
Repairs and maintenance	73,979	78,164	1,133	-	-	-
Special events	-	-	-	-	148,155	182,094
Supplies	66,535	79,298	2,024	1,534	814	584
Travel and transportation	52,698	43,565	2,790	791	-	-
Utilities	83,584	76,900	-	-	600	610
Workshop wages and benefits	-	-	8	69	-	-
Depreciation	94,494	90,732	-	-	-	-
Total expenses	$ 2,733,624	$ 2,605,977	$ 297,281	$ 298,412	$ 224,121	$ 258,163

See accompanying notes to the financial statements.

THE ROCHELLE CENTER
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016

	Total Expenses	
	2017	2016
Salaries	$ 2,110,989	$ 1,911,180
Payroll taxes and benefits	308,585	422,261
Total personnel costs	2,419,574	2,333,441
Communications	48,440	46,993
Contracted services	92,347	79,788
Dues and subscriptions	6,019	3,268
Insurance	61,177	57,811
Interest	9,209	11,466
Miscellaneous	25,548	29,105
Professional fees	57,508	41,291
Rent	8,390	5,048
Repairs and maintenance	75,112	78,164
Special events	148,155	182,094
Supplies	69,373	81,416
Travel and transportation	55,488	44,356
Utilities	84,184	77,510
Workshop wages and benefits	8	69
Depreciation	94,494	90,732
Total expenses	$ 3,255,026	$ 3,162,552

See accompanying notes to the financial statements.

THE ROCHELLE CENTER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016

	2017	2016
Cash Flows From Operating Activities:		
Increase (decrease) in net assets from continuing operations	$ 15,277	$ 380,590
Gain (loss) from discontinued operations	(75,203)	54,572
Increase (decrease) in net assets	(59,926)	435,162
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	94,494	90,732
Depreciation - other	17,815	19,930
Realized gain on sale of property and equipment	-	(264,396)
Investment income, net	(1,831)	(1,116)
Forgiveness of THDA grant note	(62,307)	-
Changes in:		
Receivables	17,948	(58,080)
Prepaid expenses	(5,063)	(16,440)
Assets whose use is limited	12,810	59,405
Accounts payable	1,816	18,665
Accrued expenses	(120,993)	(20,348)
Total adjustments	(45,311)	(171,648)
Net cash provided by (used in) operating activities	(105,237)	263,514
Cash Flows from Investing Activities:		
Purchase of property and equipment	(45,119)	(245,975)
Proceeds from sale of property and equipment	-	310,957
Net cash provided by (used in) investing activities	(45,119)	64,982
Cash Flows from Financing Activities:		
Payments on long-term debt	(13,926)	(104,709)
Net cash used in financing activities	(13,926)	(104,709)
Net increase (decrease) in cash	(164,282)	223,787
Cash - beginning of year	638,679	414,892
Cash - end of year	$ 474,397	$ 638,679

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the years ended June 30, 2017 and 2016, was $9,209 and $11,466, respectively.

See accompanying notes to the financial statements.

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

The terms "we" "our" and "us" are also used throughout these notes to the financial statements to identify The Rochelle Center. The 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 are reviewed annually by the State legislature for possible adjustment.

Program Services

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

Developmental Services - 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 - 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. As of June 30, 2017, the production center was no longer in operations. See Note 12 for note on discontinued operations.

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.

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

Unrestricted net assets - Net assets not subject to donor-imposed stipulations. Restrictions fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as unrestricted.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

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

NOTE 1 - Summary of Significant Accounting Policies (continued)

Prior Year Summarized Financial Information

While comparative information is not required under United States generally accepted accounting principles ("US GAAP"), we believe this information is useful and have included certain summarized financial information from our 2016 financial statements. Such summarized information is not intended to be a complete presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with our financial statements as of and for the year ended June 30, 2016, from which it was derived.

Reclassifications

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

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.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, we consider all investment instruments purchased with original maturities of three months or less to be cash equivalents. At June 30, 2017 and 2016, there were no cash equivalents.

Accounts Receivable

We record receivables from promises to give when they are pledged. Bad debts are recognized on the allowance method based on historical experience and our evaluation of outstanding accounts. An allowance for uncollectable accounts of $1,000 has been recorded for each year ended June 30, 2017 and 2016, respectively.

Investments

We use a framework for measuring fair value and disclosing fair values. We define fair value at the price which would be received to sell an asset in an orderly transaction between market participants at the measurement date. We use this framework for all assets and liabilities measured and reported on a fair value basis and enable the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Each asset and liability carried at fair value is classified into one of the following categories:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Observable market based inputs or unobservable inputs corroborated by market data
- Level 3 - Unobservable inputs not corroborated by market data.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Investments (continued)

The following table summarizes our financial assets measured at fair value on a recurring basis segregated by level of valuation inputs within the fair value hierarchy utilized to measure fair value as of June 30, 2017:

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Beneficial interest in agency endowment fund	$ 9,235	$ 9,235	$ -	$ -	$ 9,235
Investments	6,232	6,232	6,232	-	-
	$ 15,467	$ 15,467	$ 6,232	$ -	$ 9,235

As discussed above, we are required to report fair value measurements in one of three levels, which are based on the ability to observe in the marketplace the inputs to the valuation techniques. We used the following ways to determine the fair values of the beneficial interest in agency endowment fund and investments, respectively:

- We obtained a summary statement directly from the Community Foundation of Middle Tennessee with the value of the endowment fund as of June 30, 2017.

There were no transfers between Level 1, Level 2, and Level 3 investments during the year ended June 30, 2017.

A reconciliation of changes in the amounts reported for the assets valued using Level 3 inputs are included in Note 9.

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.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. At June 30, 2017, no assets were considered to be impaired.

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.

Income Tax Status

We are a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and 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 financial statements. We do not believe there are any uncertain tax positions. Further, we do not believe that we have any unrelated business income, which would be subject to federal taxes.

THE ROCHELLE CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017
WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2016

NOTE 1 - Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

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

Advertising

Advertising is expensed as incurred.

Use of Estimates

The preparation of 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.

Fair Values of Financial Instruments

The fair values of current assets, current liabilities, long-term liabilities, and restricted cash approximate to the carrying values due to the short maturities of these instruments and they are all Level 1 in the fair value hierarchy.

The fair values of long-term debt approximate to the carrying values and are estimated based on current rates offered to us and they are all Level 1 in the fair value hierarchy.

NOTE 2 - Accounts Receivable

A summary of the accounts receivable held at June 30, 2017 and 2016, is as follows:

	2017	2016
Production contracts	$ 70,919	$ 86,745
Tennessee Department of Intellectual Disabilities Services	291,101	288,384
Residential	(213)	4,626
	361,807	379,755
Less: allowance for bad debts	(1,000)	(1,000)
	$ 360,807	$ 378,755

NOTE 3 - Investments

In the year ended June 30, 2014, we received an investment portfolio as a donation for attending a fundraising event. The investment portfolio had a fair market value of $4,282 at the date of donation. At June 30, 2017 and 2016, the investments in this portfolio had a fair market value of $6,232 and $5,819, respectively.

NOTE 3 – Investments (continued)

Investments consisted of the following at June 30, 2017 and 2016:

	2017	2016
Equities	$ 5,764	$ 5,453
FlexInsured Account	468	366
	$ 6,232	$ 5,819

The fair value of the above investments is based on Level 1 inputs, which are values readily obtained by publicly quoted prices. Investment income is $1,831 which is comprised of interest of $717, realized and unrealized gain, net of $1,114 at June 30, 2017, and interest income of $551 and a realized loss of $1,109 at June 20, 2016. The endowment investment income, net of $877 at June 30, 2017, is also included. See Note 9 for endowment activity note.

NOTE 4 - Accrued Expenses

At June 30, 2017 and 2016, expenses were accrued for the following:

	2017	2016
Accrued paid time off	$ 24,044	$ 43,039
Accrued wages payable	30,866	123,235
Accrued retirement contribution expense	-	1,032
Deferred revenue	11,500	21,750
Other accruals	2,305	652
	$ 68,715	$ 189,708

NOTE 5 - Long-term Debt

Long-term debt at June 30, 2017 and 2016 consists of the following:

	2017	2016
First mortgage note payable to U.S. Bank with a maturity of June 2, 2019. Monthly payments of $1,174 are required with interest at 4.49%. The note is collateralized by real and personal property with a net book value of $151,596.	$ 130,101	$ 137,993
First mortgage note payable to Regions Bank with a maturity of August 8, 2023. Monthly payments of $677 are required, including 4.25% interest. The note is collateralized by real property with a net book value of $94,511.	70,195	76,229
Grant notes payable to THDA with a maturities through August 25, 2021. There are no monthly payments required and is a non-interest bearing note. The Rochelle Center is not required to pay the note back if the properties in the Grant Notes are kept until their maturities.	231,349	293,656
	431,645	507,878
Less: current maturities	(13,576)	(75,220)
	$ 418,069	$ 432,658

NOTE 5 - Long-term Debt (continued)

The following is a schedule of future maturities:

Year Ended June 30,	
2018	$ 13,576
2019	127,065
2020	5,615
2021	5,859
2022	237,462
Thereafter	42,068
	$ 431,645

NOTE 6 - Unrestricted Net Assets – Board Designated

At June 30, 2017 and 2016, the Board of Directors has designated $322,000 in net assets and cash to be used for future building and equipment purchases and repairs.

NOTE 7 - Temporarily Restricted Net Assets

Also at June 30, 2017 and 2016, we held assets whose use was temporarily restricted by donors or grantors as follows:

	2017	2016
Music Therapy Program	$ 2,987	$ 11,327
Purchase of Van	4,725	-
First Aid/CPR	2,990	2,990
	$ 10,702	$ 23,512

NOTE 8 - 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 two operating leases with monthly payments of $542 and $108. These leases expire in November 2017 and September 2017, respectively. Total rent expense for the years ended June 30, 2017 and 2016, was $8,390 and $5,048, respectively.

Year Ended June 30,	
2018	$ 2,169

NOTE 9 - Community Foundation Endowment

The Community Foundation of Middle Tennessee (the "Foundation"), 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 our Statement of Financial Position. The balance of the fund at June 30, 2017 and 2016, was $9,235 and $8,358, respectively.

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

Balance at July 1, 2016		$ 8,358
Contributions	$ -	
Interest income	142	
Realized loss	466	
Unrealized loss	337	
Administrative fees	(35)	
Investment fees	(33)	
		877
Balance at June 30, 2017		$ 9,235

NOTE 10 - 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, 2017 and 2016, revenue received from governmental agencies was 80% and 73% of total revenue, respectively. At June 30, 2017 and 2016, there was a concentration of 81% and 76% of total receivables due from the State of Tennessee, respectively.

We maintain our cash in bank accounts which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts and do not believe that we are exposed to any significant credit risk on our cash.

Accounts Payable

At June 30, 2017 and 2016, we owed two vendors 64% and 34% of our total accounts payable, respectively.

NOTE 11 - Retirement Plan

We sponsor a tax-deferred annuity plan ("Plan") under Section 403(b) of the Internal Revenue Code. In the years ended June 30, 2017 and 2016, we did not make discretionary employer matches for the Plan. There were no expenses for the Plan during the years ended June 30, 2017 and 2016.

NOTE 12 - Discontinued Operations/Future Waiver Contracts

As determined by the Home and Community Based Services (HCBS) Waiver all agencies funded by the Department of Intellectual and Developmental Disabilities (DIDD) will transition to Prevocational/Employment or Community Based Day from Facility Based Service on or before March 17, 2019. Information has been sent home to stakeholders regarding the changes required to meet the new standards. As a result of the new waiver, all paid prevocational work activities at Rochelle Center ended on or before December 31, 2016 for those funded by the HCBS/DIDD. The discontinued operations in the amount of $75,203 are current year revenue and expenses as shown on the Statement of Activities. On the Statement of Financial Position, assets related to the production center are $64,945 which includes $3,481 in receivables related to production center contracts at June 30, 2017, that are expected to be received and fixed assets at carrying value of $61,464. We will work with other vulnerable populations that will benefit from work hardening skills as services transition away from the traditional work environment for those funded by HCBS/DIDD. We continue to provide meaningful Community Based Day opportunities and Prevocational/Employment Services as well as Residential Supported Living Services for those who have chosen us as a service provider under the HCBS/DIDD Licensure.

NOTE 13 - New Pronouncements

In May 2014, FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606). The Update provides guidance about recording contract revenue on an organization's statement of activities. The amendments in this Update are effective for annual periods beginning after December 15, 2018, and for annual periods and interim periods thereafter with early adoption permitted for annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting this statement.

In August 2014, the FASB issued guidance that is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. In connection with preparing financial statements, management will need to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the organization's ability to continue as a going concern within one year after the date that the financial statements are issued. The amendments will be effective for organization for annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter with early adoption permitted. We do not expect these amendments to have a material effect on our financial statements.

In February 2016, FASB issued Accounting Standards Update 2016-02, Leases (Topic 842). The Update provides guidance about recording lease transactions on an organization's statements of financial position and activities. The amendments in this Update are effective for annual periods beginning after December 15, 2019, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

In August 2016, FASB issued Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The Update provides guidance about the presentation of financial statements for non-profit organizations. The amendments in this Update are effective for annual periods beginning after December 15, 2017, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

In August 2016, FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows. The amendments will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the impact of adopting this statement.

NOTE 13 - New Pronouncements (continued)

In November 2016, FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how restricted cash is presented and classified in the statement of cash flows. The amendments will be effective for the Organization for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact of adopting this guidance on the financial statements.

NOTE 14 - Subsequent Events

We have evaluated events subsequent to the year ended June 30, 2017. As of September 27, 2017, the date that the financial statements were available to be issued. We are not aware of any material subsequent events which would require recognition or disclosure in the accompanying financial statements.

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
The Rochelle Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Rochelle Center (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Rochelle Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Rochelle Center's internal control. Accordingly, we do not express an opinion on the effectiveness of The Rochelle Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness. 2017-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Rochelle Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2017-001.

The Rochelle Center's Response to Findings

The Rochelle Center's response to the findings identified in our audit is described in the accompanying schedule of findings. The Rochelle Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Patterson Hardee & Ballentine

October 27, 2017

THE ROCHELLE CENTER
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of The Rochelle Center.

2. One material weakness disclosed during the audit of the financial statements was reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.* See 2017-001.

3. Ten instances of noncompliance of Rochelle Center were disclosed during the audit. See 2017-001.

FINDINGS—FINANCIAL STATEMENT AUDIT

2017-001

Criteria:	The Organization is required to maintain documentation of all services provided and billed for all State contracts.
Condition:	Days billed to the State did not agree to the number of daily notes.
Perspective Information:	Some notes were present for days not billed to the State. Some days were billed to the State for which the notes were not present.
Cause:	The client daily notes are not being properly reconciled before the State is billed.
Effect:	Amounts billed to the State were incorrect or incomplete.
Recommendations:	All notes should include the information required by the contracts with the State and should be signed by the staff preparing the daily notes. Proper review and reconciliation procedures should be in place to catch any discrepancies in the client daily notes.
Response:	We have implemented procedures to detect and correct future over and under billings.

THE ROCHELLE CENTER
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

Financial Statement Findings:

None noted.

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PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

October 27, 2017

To the Board of Directors of
The Rochelle Center

We have audited the financial statements of The Rochelle Center for the year ended June 30, 2017, and have issued our report thereon dated October 27, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 1, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The Rochelle Center are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

- The disclosure in Note 1 to the financial statements explaining the basis of allocation of functional expenses into their appropriate functional categories.
- The disclosure in Note 12 to the financial statements discussing the discontinued operations in relation to the production center closing and its effect on the financial statement as of the date the financial statements were ready to be issued.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of the audit procedures were corrected by management: expiration on one of the THDA homes under contingent liability and disposal of fixed assets.

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Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 27, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. Separate letters dated October 27, 2017, contain our communication of significant deficiencies as well as suggested improvements in the Organization's internal control.

With the Waiver program ending and the sheltered workshop closing, The Rochelle Centers revenue stream decreased in the current year and is expected to continue to decrease due to the closing of the production center. There also was a 35% decrease in DIDD clients during the year. A disclosure in Note 12 to the financial statements explains the changes in revenue stream. After assessing management's plan on mitigating the adverse effects of the events listed above, we concluded that The Rochelle Center will continue as a going concern for a period of one year after the financial statements are available to be issued. Our opinion is not modified with respect to this matter.

This information is intended solely for the use of the Board of Directors and Management of The Rochelle Center and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Patterson Hardee & Ballentine

ROCHELLE CENTER
SCHEDULE OF UNCORRECTED ENTRIES
JUNE 30, 2017

Description (Nature) of Audit Difference (AD)	Factual (F), Judgmental (J), or Projected (P)	Cause	W/P Reference	Financial Statement Effect—Amount of Over (Under) Statement of: Total Assets	Total Liabilities	Net Assets	Revenues	Expenses	Change in Net Assets from Continuing Operations	Working Capital
Restricted funds released in prior year when there should have been a balance in current year	Judgmental	Unaware of balance in prior year - reviewed prior year and no effect on financial statements	U-1	*	*	*	*	*		*
									$0	
Total				$0	$0	$0	$0	$0	$0	$0
Less Audit Adjustments Subsequently Booked									$0	
Unadjusted AD—Current Year (Iron Curtain Method)				$0	$0	$0	$0	$0	$0	$0
Effect of Unadjusted AD—Prior Years									$0	
Combined Current and Prior Year AD (Rollover Method)				$0	$0	$0	$0	$0	$0	$0
Financial Statement Caption Totals				$2,555,358	$553,058	$2,002,300	$3,270,303	$3,255,026	$15,277	$745,220
Current Year AD as % of FS Captions (Iron Curtain Method)				0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Current and Prior Year AD as % of FS Captions (Rollover Method)				0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Conclusion: Based on the results of the evaluation performed above, as well as the consideration of qualitative factors, uncorrected audit differences, individually and in the aggregate, **does not** cause the financial statements taken as a whole to be materially misstated.

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PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

October 27, 2017

To the Management of
The Rochelle Center

In planning and performing our audit of the combined financial statements of The Rochelle Center (the "Organization") as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered The Rochelle Center's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated October 27, 2017, on the financial statements of the Organization.

Record Investment Activity

We noted during audit testing that not all activity for investments is being recorded. All investment statements should be maintained, and activity should be recorded in the accounting records at least quarterly, preferably monthly.

Prepare an Aged Trial Balance of Accounts Receivable

Currently, an aging of accounts receivable from the Department of Intellectual and Developmental Disabilities (DIDD) cannot be produced as transactions with DIDD are entered as journal entries in the accounting software. The Organization is currently not able to reconcile the amounts that were billed to DIDD to what was received, as clients are not set up as individual customers in the accounting software. We recommend that each client is set up as a customer in the accounting software so that an aging can be produced and the Organization will know the outstanding balance for each client as well as the age of that balance. We are aware that Rikki is currently working on this and will be implemented for the 2018 fiscal year. The accounts receivable aging should be reviewed by management and agreed to the general ledger when the schedules are completed on a monthly basis.

Employee Files

During the audit, we observed that personnel files are not being kept current and in some instances were incomplete in regards to pay rates. Any time there is a pay rate change there should be formal documentation with the employee signature on it as a form of acknowledgement and should be kept in the employees personnel file permanently.

Rep Payee

In testing compliance, we came across a few instances where the support for checks written for rent and utilities were missing. In one case, the client was not charged for their portion of a utility bill. As a representative payee, it is your responsibility to maintain an effective representative payee accounting system. All support for any checks written should be kept in the clients records as support for the expenses. We also noted that one of the client's bank balance was over the $2,000 threshold. It is important to follow the Social Security Administration guidelines for SSI benefits to avoid any potential revocation of benefits.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of management, the Board of Directors, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Patterson Hardee & Ballentine

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