

**THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2013 AND 2012**

**THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITORS' REPORT
JUNE 30, 2013 AND 2012**

TABLE OF CONTENTS

Independent Auditors' Report	1-2
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	3-4
Consolidated Statements of Activities	5
Consolidated Statements of Functional Expenses	6-8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10-17
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	18-19
Schedule of Audit Findings	20-21
Independent Auditors' Report on Supplementary Information	22
Consolidating Statement of Financial Position	23-24
Consolidating Statement of Activities	25
Consolidating Statement of Cash Flows	26

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Rochelle Center and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Rochelle Center (a nonprofit organization) and Subsidiary (collectively the "Center"), which comprise the statement of financial position as of June 30, 2013, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center's preparation and fair presentation of the consolidated 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 Center'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 consolidated 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 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, 2013, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2013, on our consideration of The Rochelle Center and Subsidiary'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 and Subsidiary's internal control over financial reporting and compliance.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matter

The consolidated financial statements of The Rochelle Center and Subsidiary as of June 30, 2012, were audited by other auditors whose report dated August 24, 2012, expressed an unqualified opinion on those statements.

Blankenship CPA Group, PLLC

October 1, 2013

**THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012**

ASSETS

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash	\$ 269,195	\$ 544,620
Receivables, net of allowance for doubtful accounts of \$3,200 and \$500, respectively	325,202	307,311
Inventory	-	3,669
Prepaid expenses	23,568	27,894
Total current assets	<u>617,965</u>	<u>883,494</u>
Property and Equipment:		
Land	41,051	41,051
Buildings	2,419,201	2,393,668
Leasehold improvements	-	20,446
Equipment	1,326,944	1,377,157
	<u>3,787,196</u>	<u>3,832,322</u>
Less: accumulated depreciation	<u>(2,648,371)</u>	<u>(2,535,639)</u>
Total property and equipment, net	<u>1,138,825</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	7,290	6,435
Cash - designated by the board of directors	300,000	300,000
Buildings	204,269	229,802
Total assets whose use is limited	<u>533,559</u>	<u>558,237</u>
Total assets	<u><u>\$ 2,290,349</u></u>	<u><u>\$ 2,738,414</u></u>

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

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2013 AND 2012

LIABILITIES AND NET ASSETS

	<u>2013</u>	<u>2012</u>
Current Liabilities:		
Current installments of long-term debt	\$ 360,132	\$ 320,239
Accounts payable	59,773	51,804
Accrued expenses	110,628	107,693
Total current liabilities	<u>530,533</u>	<u>479,736</u>
Long-term debt, net of current installments	<u>-</u>	<u>358,685</u>
Total liabilities	<u>530,533</u>	<u>838,421</u>
Net Assets:		
Unrestricted:		
Undesignated	1,226,257	1,341,756
Board-designated	300,000	300,000
Total unrestricted net assets	<u>1,526,257</u>	<u>1,641,756</u>
Temporarily restricted	226,269	251,802
Permanently restricted	7,290	6,435
Total restricted net assets	<u>233,559</u>	<u>258,237</u>
Total net assets	<u>1,759,816</u>	<u>1,899,993</u>
Total liabilities and net assets	<u>\$ 2,290,349</u>	<u>\$ 2,738,414</u>

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

**THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2013</u>	<u>2012</u>
Support and revenues:					
Contributions	\$ 20,275	\$ -	\$ -	\$ 20,275	\$ 10,552
United Way	34,673	-	-	34,673	34,022
Government grants and contracts	2,715,591	-	-	2,715,591	2,504,398
Supported employment	9,241	-	-	9,241	8,984
Program fees	34,269	-	-	34,269	6,165
Residential income	163,070	-	-	163,070	134,860
Workshop sales	323,241	-	-	323,241	467,509
Freight revenue	10,313	-	-	10,313	11,455
Special events	179,272	-	-	179,272	26,006
Interest and investment income, net	333	-	908	1,241	3,009
Miscellaneous	657	-	-	657	19,467
Net assets released from restrictions	53	-	(53)	-	-
Total support and revenues	3,490,988	-	855	3,491,843	3,226,427
Expenses:					
Program services:					
Developmental services	568,109	-	-	568,109	499,390
Residential services	1,487,781	-	-	1,487,781	1,364,464
Production center	728,418	-	-	728,418	1,034,222
Supported employment	346,794	-	-	346,794	168,985
Total program services	3,131,102	-	-	3,131,102	3,067,061
Supporting services:					
Management and general	377,582	-	-	377,582	350,995
Fundraising	123,336	-	-	123,336	12,331
Total supporting services	500,918	-	-	500,918	363,326
Total expenses	3,632,020	-	-	3,632,020	3,430,387
(Decrease) increase in net assets	(141,032)	-	855	(140,177)	(203,960)
Net assets - beginning of year	1,641,756	251,802	6,435	1,899,993	2,103,953
Reclassification	25,533	(25,533)	-	-	-
Net assets - end of year	\$ 1,526,257	\$ 226,269	\$ 7,290	\$ 1,759,816	\$ 1,899,993

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

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	Program Services					
	Developmental Services		Residential Services		Production Center	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Salaries	\$ 364,986	\$ 305,094	\$ 972,228	\$ 792,734	\$ 297,737	\$ 350,060
Payroll taxes and benefits	45,840	40,153	158,816	146,305	56,391	66,352
Total Personnel Costs	410,826	345,247	1,131,044	939,039	354,128	416,412
Bad debts	-	-	2,700	2,250	-	900
Bank fees	-	6,714	-	-	-	-
Communications	4,407	3,934	27,619	24,567	12,571	15,541
Contracted services	38,266	26,521	37,993	51,291	85,200	98,162
Dues and subscriptions	644	403	46	40	1,679	1,388
Insurance	21,636	12,346	17,515	18,179	21,409	23,861
Interest	-	-	22,597	36,279	-	-
Miscellaneous	1,647	2,312	5,927	11,122	3,429	10,102
Professional fees	1,259	308	7,803	53,387	5,981	4,427
Rent	1,952	1,630	3,662	3,754	4,860	45,623
Repairs and maintenance	8,716	22,746	35,730	40,869	16,527	20,050
Special events	-	-	-	-	-	-
Supplies	8,319	5,680	55,546	56,687	20,869	152,051
Travel and transportation	5,445	2,056	30,464	23,860	6,565	10,173
Utilities	12,888	12,696	59,632	53,237	28,725	40,267
Workshop wages and benefits	15	-	-	-	114,386	138,469
Depreciation	52,089	56,797	49,503	49,903	52,089	56,796
Impairment loss	-	-	-	-	-	-
Total Expenses	\$ 568,109	\$ 499,390	\$ 1,487,781	\$ 1,364,464	\$ 728,418	\$ 1,034,222

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

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>Program Services</u>		<u>Total Program Services</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Salaries	\$ 101,198	\$ 43,117	\$ 1,736,149	\$ 1,491,005
Payroll taxes and benefits	16,235	12,507	277,282	265,317
Total Personnel Costs	117,433	55,624	2,013,431	1,756,322
Bad debts	-	-	2,700	3,150
Bank fees	4,012	-	4,012	6,714
Communications	4,066	-	48,663	44,042
Contracted services	11,722	18,199	173,181	194,173
Dues and subscriptions	-	-	2,369	1,831
Insurance	9,302	5,336	69,862	59,722
Interest	-	-	22,597	36,279
Miscellaneous	3,508	1,281	14,511	24,817
Professional fees	21,785	32,765	36,828	90,887
Rent	29,909	-	40,383	51,007
Repairs and maintenance	5,889	1,789	66,862	85,454
Special events	-	-	-	-
Supplies	86,784	-	171,518	214,418
Travel and transportation	4,637	2,664	47,111	38,753
Utilities	9,738	-	110,983	106,200
Workshop wages and benefits	25,169	32,677	139,570	171,146
Depreciation	12,840	18,650	166,521	182,146
Impairment loss	-	-	-	-
Total Expenses	\$ 346,794	\$ 168,985	\$ 3,131,102	\$ 3,067,061

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

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	Supporting Services					
	Management and General			Fundraising		
	2013	2012		2013	2012	2012
Salaries	\$ 253,273	\$ 242,545	\$ -	\$ -	-	\$ 1,989,422
Payroll taxes and benefits	78,353	68,649	-	-	-	355,635
Total Personnel Costs	331,626	311,194	-	-	-	2,345,057
Bad debts	-	-	-	-	-	2,700
Bank fees	-	-	-	-	-	4,012
Communications	-	-	-	-	-	48,663
Contracted services	472	529	-	-	-	173,653
Dues and subscriptions	-	165	-	-	-	2,369
Insurance	4,148	8,414	-	-	-	74,010
Interest	-	-	-	-	-	22,597
Miscellaneous	7,265	7,903	121	-	366	21,897
Professional fees	14,304	13,915	-	-	-	51,132
Rent	-	-	-	-	-	40,383
Repairs and maintenance	2,544	8,237	-	-	-	69,406
Special events	-	-	123,215	11,965	-	123,215
Supplies	352	519	-	-	-	171,870
Travel and transportation	-	55	-	-	-	47,111
Utilities	-	-	-	-	-	110,983
Workshop wages and benefits	-	64	-	-	-	139,570
Depreciation	-	-	-	-	-	166,521
Impairment loss	16,871	-	-	-	-	16,871
Total Expenses	\$ 377,582	\$ 350,995	\$ 123,336	\$ 12,331	-	\$ 3,632,020
						\$ 3,430,387

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

**THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Decrease in net assets	<u>\$ (140,177)</u>	<u>\$ (203,960)</u>
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Depreciation	166,521	182,145
Impairment loss	16,871	-
Allowance for doubtful accounts	2,700	(18,732)
Assets whose use is limited	(855)	8,204
Changes in:		
Accounts receivable	(20,592)	50,888
Inventory	3,669	897
Prepaid expenses	4,326	8,417
Accounts payable	7,969	(56,509)
Accrued expenses	2,935	15,407
Total adjustments	<u>183,544</u>	<u>190,717</u>
Net cash provided (used) by operating activities	<u>43,367</u>	<u>(13,243)</u>
Cash flows from investing activities:		
Proceeds from maturities	-	221,694
Purchases of equipment	-	(2,093)
Net cash provided by Investing activities	<u>-</u>	<u>219,601</u>
Cash flows from financing activities:		
Payments on long-term debt	<u>(318,792)</u>	<u>(19,197)</u>
Net cash used by financing activities	<u>(318,792)</u>	<u>(19,197)</u>
Net (decrease) increase in cash	(275,425)	187,161
Cash - beginning of year	<u>544,620</u>	<u>357,459</u>
Cash - end of year	<u>\$ 269,195</u>	<u>\$ 544,620</u>
Supplemental Cash Flow Information:		
Interest paid during the year	<u>\$ 22,597</u>	<u>\$ 36,279</u>
Noncash restrictions released	<u>\$ 25,533</u>	<u>\$ 25,533</u>

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

**THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

Note 1 – Summary of significant accounting policies

Nature of Activities

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 have remained unchanged since 2005. We are the sole member of Bagel Works and Perks, LLC (BWP), a nonprofit Tennessee limited liability company. BWP operated 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, LLC. The Rochelle Center ceased the operating activities of Bagel Works and Perks, LLC on February 22, 2013.

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.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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 Consolidated Statements of Activities as unrestricted.

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013 AND 2012

Note 1 – Summary of significant accounting policies (continued)

Basis of Presentation (continued)

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.

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, 2013 and 2012, there were no cash equivalents.

Principles of Consolidation

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. We consolidate all entities controlled by ownership of a majority voting interest. As of June 30, 2013 and 2012 the Center owns 100% of BWP, all activities of BWP have been consolidated, and all inter-company transactions have been eliminated in accordance with accounting principles generally accepted in the United States of America.

Accounts Receivable

We record receivables from promises to give when they are pledged. For the years ended June 30, 2013 and 2012 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 \$3,200 and \$500 has been made for the years ended June 30, 2013 and 2012, respectively.

Inventory

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

Property and Equipment and Depreciation

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.

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013 AND 2012

Note 1 – Summary of significant accounting policies (continued)

Property and Equipment and Depreciation (continued)

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.

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, LLC, 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.

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.

Use of Estimates

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

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.

Reclassifications

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

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013 AND 2012

NOTE 2 - Accounts Receivable

At June 30, 2013 and 2012, we were due the following amounts:

	<u>2013</u>	<u>2012</u>
Production contracts	\$ 45,248	\$ 40,305
Tennessee Department of Intellectual Disabilities Services	252,272	236,385
Residential	30,482	26,495
Special events	400	-
Bagel Works	-	4,626
	<u>328,402</u>	<u>307,811</u>
Less: allowance for doubtful accounts	<u>(3,200)</u>	<u>(500)</u>
	<u><u>\$ 325,202</u></u>	<u><u>\$ 307,311</u></u>

NOTE 3 - Net Assets

At June 30, 2013 and 2012, 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, 2013 and 2012, we held assets whose use was temporarily restricted by donors or grantors as follows:

	<u>2013</u>	<u>2012</u>
Residential Program - Buildings purchased with THDA grant	\$ 204,269	\$ 229,802
Sensory garden	<u>22,000</u>	<u>22,000</u>
	<u><u>\$ 226,269</u></u>	<u><u>\$ 251,802</u></u>

Also at June 30, 2013 and 2012, 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 there from; 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 Center. The balance of the fund at June 30, 2013 and 2012, was \$7,290 and \$6,435, respectively.

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013 AND 2012

NOTE 3 – Net Assets (continued)

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

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 6,435	\$ 6,063
Contributions	50	500
Interest income	113	100
Realized gain	218	55
Unrealized gain (loss)	527	(234)
Administrative fees	(28)	(25)
Investment fees	(25)	(24)
	<u>855</u>	<u>372</u>
Balance, end of year	<u>\$ 7,290</u>	<u>\$ 6,435</u>

NOTE 4 – Accrued Expenses

At June 30, 2013 and 2012 expenses were accrued for the following:

	<u>2013</u>	<u>2012</u>
Accrued paid time off	\$ 30,043	\$ 18,577
Accrued wages payable	76,450	72,080
Accrued retirement contribution expense	-	5,000
Deferred revenue	2,750	1,500
Other accruals	1,385	10,536
	<u>\$ 110,628</u>	<u>\$ 107,693</u>

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013 AND 2012

NOTE 5 – Long-term Debt

Long-term debt at June 30, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</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 \$185,679.	\$ 156,336	\$ 162,327
First mortgage note payable to U.S. Bank with a maturity of June 2, 2014. Monthly payments of \$338 are required based on 25 years amortization with interest at 5.25%. The note is collateralized by real and personal property with a net book value of \$99,055.	43,761	45,439
First mortgage note payable to Avenue Bank with a maturity of April 16, 2013. Monthly payments of \$1,587 were required based on a 5 year amortization with interest at 5.5%. The note was collateralized by real and personal property.	-	234,218
First mortgage note payable to Avenue Bank with a maturity of March 12, 2013. Monthly payments of \$495 were required based on a 5 year amortization with interest at 5.5%.	-	72,733
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 \$112,610. This note is callable upon death of the holder of the debt instrument. The Individual died March 25, 2013 resulting in the note being called.	87,624	89,949
First mortgage note payable to Avenue Bank with a maturity of December 28, 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 \$103,980.	72,411	74,258
	360,132	678,924
Less: current maturities	(360,132)	(320,239)
	<u>\$ -</u>	<u>\$ 358,685</u>

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013 AND 2012

NOTE 6 - 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 years ended June 30, 2013 and 2012 was \$40,383 and \$51,007 respectively.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	
2014	<u>\$ 1,662</u>

NOTE 7 – 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, 2013 and 2012 there was a concentration of 78% and 77% of total receivables due from the State, respectively.

Accounts Payable

At June 30, 2013 and 2012, we owed one vendor 24% and 50% of our total accounts payable, respectively.

NOTE 8 – Retirement Plan

We sponsor a tax-deferred annuity plan ("Plan") under Section 403(b) of the Internal Revenue Code. For the year ended June 30, 2013, we did not make a discretionary employer match for the Plan. Expenses for the Plan during the years ending June 30, 2013 and 2012 are \$0 and \$5,000, respectively.

NOTE 9 – Discontinued Operations

The Center decided to cease the operations of Bagel Works and Perks, LLC (a Tennessee non-profit limited liability company) as of February 22, 2013. The results of operations for this subsidiary amounted to a net loss of \$13,058 for the eight months ended February 22, 2013. Fixed assets with a net book value of \$31,182 were transferred to the Center's administrative offices. An impairment loss of \$16,871 was recognized on the restaurant equipment.

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013 AND 2012

NOTE 10 – Subsequent Events

We refinanced our long-term debt that was held by an individual. The debt was callable upon death of the individual. The individual died on March 25, 2013, and the note was refinanced on August 8, 2013. The old debt amount of \$87,624 was paid in full. The first mortgage note is payable to Regions Bank with a maturity date of August 8, 2023 and was financed over a ten year term. Monthly payments of \$677 are required, including 4.25% interest. The note is collateralized by real and personal property with a net book value of \$112,610.

We have evaluated subsequent events through October 1, 2013, the date that the consolidated financial statements were available to be issued.

**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**

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 and Subsidiary

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 consolidated financial statements of The Rochelle Center and Subsidiary (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 1, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered The Rochelle Center and Subsidiary'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Rochelle Center and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Center's consolidated 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Rochelle Center and Subsidiary's consolidated 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 one instance of

noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2013-1.

We noted certain matters that we reported to management of The Rochelle Center and Subsidiary in a separate letter dated October 1, 2013.

The Rochelle Center and Subsidiary's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit The Rochelle Center and Subsidiary's responses and, accordingly, we express no opinion on them.

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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blankenship CPA Group, PLLC

October 1, 2013

**THE ROCHELLE CENTER AND SUBSIDIARY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013**

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the consolidated financial statements of The Rochelle Center and Subsidiary.
2. One instance of noncompliance determined during the audit of the consolidated financial statements is 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.

FINDINGS - FINANCIAL STATEMENT AUDIT

2013-1

Criteria:	The Center is required to maintain documentation of all services provided and billed for all State contracts.
Condition:	One day was billed to the State for which the client was absent.
Cause:	Billing worksheets were prepared based on daily documentation of attendance for clients, but the daily notes and/or daily documentation are not reconciled to these attendance records.
Effect:	The State was billed for one day that a client was not in attendance or that the daily documentation or notes did not support the amounts billed.
Questioned Costs:	The State was incorrectly overbilled \$169.10. The amount was calculated using the number of days unsupported by documentation and the clients' eligible billing rates.
Perspective Information:	We extrapolated the errors found during testing to the population and found that the potential errors would not materially misstate the consolidated financial statements of The Rochelle Center and Subsidiary.
Recommendation:	Reconciliation of the daily documentation of attendance and the daily notes prior to the State billing will prevent erroneous billings.
Management's Response:	The Rochelle Center utilizes a procedure that should assure accurate billing information is forwarded to the accounting department. Attendance is taken daily as clients arrive and then entered into a database which compiles information on a monthly basis. Daily notes prepared by direct care staff are reviewed by program coordinators and matched against attendance. Activities outside the agency are noted on separate documents and forwarded to the receptionist for compilation in an excel spreadsheet for data entry purposes. Any breakdown in this process could lead to an error in billing. The Rochelle Center continues to maintain a 99% or better accuracy in billing.

**THE ROCHELLE CENTER AND SUBSIDIARY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

In connection with our audit of the consolidated financial statements of The Rochelle Center and Subsidiary, and as required by the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the status of all prior year audit findings must be reported. The Rochelle Center and Subsidiary prior audit findings are reported below.

PRIOR AUDIT FINDINGS

2012-1

Condition:	Documentation was not found for two days that were billed to the State. Additionally, the State was overbilled for one day that was not billed at the correct amount as documented on the attendance log and the client notes. The State also was under billed four days for which the Rochelle Center provided services.
Effect:	The State was billed for a net total of three days that clients were not in attendance or that the daily documentation or notes did not support the amounts billed.
Status:	Management is exploring computerized methods of tracking documentation and is working on a permanent solution. Similar findings were noted in the current year.

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
The Rochelle Center and Subsidiary

We have audited the consolidated financial statements of The Rochelle Center and Subsidiary as of and for the year ended June 30, 2013, and our report thereon dated October 1, 2013, which expressed an unqualified opinion on those consolidated financial statements, appears on pages 1-2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 23-26 is 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 audit 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 consolidated financial statements as a whole.

Blankenship CPA Group, PLLC

October 1, 2013

**THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013**

ASSETS

	<u>The Rochelle Center</u>	<u>Bagel Works</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current Assets:				
Cash	\$ 269,195	\$ -	\$ -	\$ 269,195
Receivables, net of allowance for doubtful accounts of \$3,200 and \$500, respectively	325,202	-	-	325,202
Prepaid expenses	23,568	-	-	23,568
Total current assets	<u>617,965</u>	<u>-</u>	<u>-</u>	<u>617,965</u>
Investment in Bagel Works	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Property and Equipment:				
Land	41,051	-	-	41,051
Buildings	2,419,201	-	-	2,419,201
Leasehold improvements	-	-	-	-
Equipment	1,326,944	-	-	1,326,944
	<u>3,787,196</u>	<u>-</u>	<u>-</u>	<u>3,787,196</u>
Less: accumulated depreciation	<u>(2,648,371)</u>	<u>-</u>	<u>-</u>	<u>(2,648,371)</u>
Total property and equipment, net	<u>1,138,825</u>	<u>-</u>	<u>-</u>	<u>1,138,825</u>
Assets Whose Use is Limited:				
Cash - restricted by the donor	22,000	-	-	22,000
Investments - Community Foundation of Middle TN	7,290	-	-	7,290
Cash - designated by the board of directors	300,000	-	-	300,000
Buildings	204,269	-	-	204,269
Total assets whose use is limited	<u>533,559</u>	<u>-</u>	<u>-</u>	<u>533,559</u>
Total assets	<u><u>\$ 2,290,349</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,290,349</u></u>

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2013

LIABILITIES AND NET ASSETS

	<u>The Rochelle Center</u>	<u>Bagel Works</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current Liabilities:				
Current installments of long-term debt	\$ 360,132	\$ -	\$ -	\$ 360,132
Accounts payable	59,773	-	-	59,773
Accrued expenses	110,628	-	-	110,628
Total current liabilities	<u>530,533</u>	<u>-</u>	<u>-</u>	<u>530,533</u>
 Long-term debt, net of current installments	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
Total liabilities	<u>530,533</u>	<u>-</u>	<u>-</u>	<u>530,533</u>
 Net Assets:				
Unrestricted:				
Undesignated	1,226,257	-	-	1,226,257
Board-designated	300,000	-	-	300,000
Total unrestricted net assets	<u>1,526,257</u>	<u>-</u>	<u>-</u>	<u>1,526,257</u>
 Restricted:				
Temporarily restricted	226,269	-	-	226,269
Permanently restricted	7,290	-	-	7,290
Total restricted net assets	<u>233,559</u>	<u>-</u>	<u>-</u>	<u>233,559</u>
 Member's equity	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Total net assets	 <u>1,759,816</u>	 <u>-</u>	 <u>-</u>	 <u>1,759,816</u>
 Total liabilities and net assets	 <u>\$ 2,290,349</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 2,290,349</u>

**THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>The Rochelle Center</u>	<u>Bagel Works</u>	<u>Eliminations</u>	<u>Consolidated</u>
Support and revenues:				
Contributions	\$ 20,275	\$ -	\$ -	\$ 20,275
United Way	14,049	20,624	-	34,673
Government grants and contracts	2,689,491	26,100	-	2,715,591
Supported employment	9,241	-	-	9,241
Program fees	34,269	-	-	34,269
Residential income	163,070	-	-	163,070
Workshop sales	168,800	154,441	-	323,241
Freight revenue	10,313	-	-	10,313
Special events	179,272	-	-	179,272
Interest and investment income, net	1,210	31	-	1,241
Miscellaneous	657	-	-	657
	<u>3,290,647</u>	<u>201,196</u>	<u>-</u>	<u>3,491,843</u>
Expenses:				
Program services:				
Developmental services	568,109	-	-	568,109
Residential services	1,487,781	-	-	1,487,781
Production center	514,164	214,254	-	728,418
Supported employment	346,794	-	-	346,794
	<u>2,916,848</u>	<u>214,254</u>	<u>-</u>	<u>3,131,102</u>
Supporting services:				
Management and general	377,582	-	-	377,582
Fundraising	123,336	-	-	123,336
	<u>500,918</u>	<u>-</u>	<u>-</u>	<u>500,918</u>
Total expenses	<u>3,417,766</u>	<u>214,254</u>	<u>-</u>	<u>3,632,020</u>
Loss of subsidiary	<u>13,058</u>	<u>-</u>	<u>(13,058)</u>	<u>-</u>
Decrease in net assets	<u>(140,177)</u>	<u>(13,058)</u>	<u>13,058</u>	<u>(140,177)</u>
Net assets - beginning of year	<u>1,899,993</u>	<u>94,189</u>	<u>(94,189)</u>	<u>1,899,993</u>
Intercompany transfers	<u>-</u>	<u>(81,131)</u>	<u>81,131</u>	<u>-</u>
Net assets - end of year	<u>\$ 1,759,816</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,759,816</u>

**THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>The Rochelle Center</u>	<u>Bagel Works</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash flows from operating activities:				
Decrease in net assets	<u>\$ (127,119)</u>	<u>\$ (13,058)</u>	<u>\$ -</u>	<u>\$ (140,177)</u>
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:				
Depreciation	154,561	11,960	-	166,521
Impairment loss	16,871	-	-	16,871
Intercompany transfers	49,949	(49,949)	-	-
Allowance for doubtful accounts	2,700	-	-	2,700
Assets whose use is limited	(855)	-	-	(855)
Changes in:				
Accounts receivable	14,404	4,627	(39,623)	(20,592)
Inventory	-	3,669	-	3,669
Prepaid expenses	(1,872)	6,198	-	4,326
Accounts payable	13,418	(45,072)	39,623	7,969
Accrued expenses	9,414	(6,479)	-	2,935
Total adjustments	<u>258,590</u>	<u>(75,046)</u>	<u>-</u>	<u>183,544</u>
Net cash provided (used) by operating activities	<u>131,471</u>	<u>(88,104)</u>	<u>-</u>	<u>43,367</u>
Cash Flows from Financing Activities:				
Payments on long-term debt	<u>(318,792)</u>	<u>-</u>	<u>-</u>	<u>(318,792)</u>
Net cash used by financing activities	<u>(318,792)</u>	<u>-</u>	<u>-</u>	<u>(318,792)</u>
Net decrease in cash	<u>(187,321)</u>	<u>(88,104)</u>	<u>-</u>	<u>(275,425)</u>
Cash - beginning of year	<u>456,516</u>	<u>88,104</u>	<u>-</u>	<u>544,620</u>
Cash - end of year	<u>\$ 269,195</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 269,195</u>