

2010 AUDIT

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

JUNE 30, 2010

(With Independent Auditor's Report Thereon)

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

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Charles Akersloot, III
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Rochelle Center and Subsidiary

We have audited the accompanying consolidated statement of financial position for The Rochelle Center (a nonprofit organization) and Subsidiary (the "Organization") as of June 30, 2010, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Rochelle Center and Subsidiary as of June 30, 2010, and the results of its consolidated operations and its consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2010, on our consideration of the Organization'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

APL CPAs

July 29, 2010

Except for Note 10, as to which the date is October 1, 2010

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010

ASSETS

Current Assets:

| | | |
|---|----------------|------------|
| Cash | \$ 77,850 | |
| Investments | 624,795 | |
| Receivables, net of allowance for doubtful accounts of \$16,287 | 225,427 | |
| Inventory | 4,566 | |
| Prepaid expenses | 29,115 | |
| Total current assets | <u>961,753</u> | \$ 961,753 |

Property and Equipment:

| | | |
|--------------------------------|--------------------|---------|
| Land | 49,331 | |
| Buildings | 266,393 | |
| Leasehold improvements | 20,446 | |
| Equipment | <u>1,370,145</u> | |
| | 1,706,315 | |
| Less: accumulated depreciation | <u>(1,130,972)</u> | |
| Total property and equipment | | 575,343 |

Other Asset:

| | |
|--|-----------|
| Receivable from the W.R. Rochelle Foundation | 1,166,070 |
|--|-----------|

Assets Whose Use is Limited:

| | | |
|------------------------------------|----------------|---------------------|
| Cash - restricted by the donor | 30,827 | |
| Investments - Community Foundation | 5,021 | |
| Cash - restricted by the board | 300,000 | |
| Buildings | <u>390,696</u> | |
| Total assets whose use is limited | | <u>726,544</u> |
| Total assets | | <u>\$ 3,429,710</u> |

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
JUNE 30, 2010

LIABILITIES AND NET ASSETS

Current Liabilities:

| | | |
|--|---------------|------------|
| Current installments of long-term debt | \$ 112,738 | |
| Accounts payable | 115,651 | |
| Accrued expenses | <u>60,626</u> | |
| Total current liabilities | | \$ 289,015 |

| | | |
|---|--|----------------|
| Long-term debt, net of current installments | | <u>697,893</u> |
| Total liabilities | | <u>986,908</u> |

Net Assets:

Unrestricted:

| | | |
|-------------------------------|----------------|-----------|
| Undesignated | 1,716,258 | |
| Board-designated | <u>300,000</u> | |
| Total unrestricted net assets | | 2,016,258 |

| | | |
|-----------------------------|--------------|----------------|
| Temporarily restricted | 421,523 | |
| Permanently restricted | <u>5,021</u> | |
| Total restricted net assets | | <u>426,544</u> |

| | | |
|------------------|--|------------------|
| Total net assets | | <u>2,442,802</u> |
|------------------|--|------------------|

| | | |
|----------------------------------|--|---------------------|
| Total liabilities and net assets | | <u>\$ 3,429,710</u> |
|----------------------------------|--|---------------------|

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Support and Revenues: | | | | |
| Contributions | \$ 15,928 | \$ 15,000 | \$ - | \$ 30,928 |
| United Way | 36,289 | - | - | 36,289 |
| Government grants and contracts | 1,959,231 | - | - | 1,959,231 |
| Supported employment | 13,167 | - | - | 13,167 |
| Program fees | 829 | - | - | 829 |
| Residential income | 101,792 | - | - | 101,792 |
| Workshop sales | 604,718 | - | - | 604,718 |
| Freight revenue | 12,040 | - | - | 12,040 |
| Special events | 142,077 | - | - | 142,077 |
| Interest and investment income, net | 31,624 | - | 541 | 32,165 |
| Miscellaneous | 972 | - | - | 972 |
| Net assets released from restrictions | 99,685 | (99,685) | - | - |
| Total support and revenues | <u>3,018,352</u> | <u>(84,685)</u> | <u>541</u> | <u>2,934,208</u> |
| Expenses: | | | | |
| Program services: | | | | |
| Developmental services | 232,946 | - | - | 232,946 |
| Residential services | 1,052,449 | - | - | 1,052,449 |
| Production center | 1,171,139 | - | - | 1,171,139 |
| Supported employment | 132,677 | - | - | 132,677 |
| Total program services | <u>2,589,211</u> | <u>-</u> | <u>-</u> | <u>2,589,211</u> |
| Supporting services: | | | | |
| Management and general | 741,061 | - | - | 741,061 |
| Fundraising | 111,630 | - | - | 111,630 |
| Total supporting services | <u>852,691</u> | <u>-</u> | <u>-</u> | <u>852,691</u> |
| Total expenses | <u>3,441,902</u> | <u>-</u> | <u>-</u> | <u>3,441,902</u> |
| Increase (decrease) in net assets | (423,550) | (84,685) | 541 | (507,694) |
| Net assets - beginning of year, | <u>2,439,808</u> | <u>506,208</u> | <u>4,480</u> | <u>2,950,496</u> |
| Net assets - end of year | <u>\$ 2,016,258</u> | <u>\$ 421,523</u> | <u>\$ 5,021</u> | <u>\$ 2,442,802</u> |

See accompanying notes to the consolidated financial statements.

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

| | Program Services | | | | |
|------------------------------------|-----------------------------------|---------------------------------|--------------------------|---------------------------------|-----------------------------------|
| | <u>Developmental Services</u> | <u>Residential Services</u> | <u>Production Center</u> | <u>Supported Employment</u> | <u>Total Program Services</u> |
| Salaries | \$ 157,729 | \$ 573,112 | \$ 361,275 | \$ 46,677 | \$ 1,138,793 |
| Payroll taxes and benefits | 19,677 | 109,372 | 63,510 | 12,490 | 205,049 |
| Total personnel costs | 177,406 | 682,484 | 424,785 | 59,167 | 1,343,842 |
| Bad debts | - | 3,000 | 6,300 | - | 9,300 |
| Communications | 3,734 | 21,065 | 12,189 | 41 | 37,029 |
| Contracted services | 6,857 | 48,920 | 154,462 | 2,156 | 212,395 |
| Dues and subscriptions | 317 | 371 | 1,120 | - | 1,808 |
| Insurance | 7,683 | 13,337 | 19,118 | 5,695 | 45,833 |
| Interest | - | 47,272 | - | - | 47,272 |
| Miscellaneous | 1,490 | 24,004 | 24,042 | 2,119 | 51,655 |
| Professional fees | 750 | 8,834 | 24,879 | 25,417 | 59,880 |
| Rent | 2,284 | 4,037 | 110,526 | - | 116,847 |
| Repairs and maintenance | 12,407 | 78,642 | 26,427 | 1,061 | 118,537 |
| Special events | - | - | - | - | - |
| Supplies | 3,213 | 49,909 | 160,989 | 24 | 214,135 |
| Travel and transportation | 1,792 | 16,009 | 8,695 | 2,763 | 29,259 |
| Utilities | 15,013 | 54,565 | 41,650 | - | 111,228 |
| Workshop wages and benefits | - | - | 139,268 | 34,234 | 173,502 |
| Total expenses before depreciation | 232,946 | 1,052,449 | 1,154,450 | 132,677 | 2,572,522 |
| Depreciation | - | - | 16,689 | - | 16,689 |
| Gain/loss on sale of fixed assets | - | - | - | - | - |
| Total expenses | <u>\$ 232,946</u> | <u>\$ 1,052,449</u> | <u>\$ 1,171,139</u> | <u>\$ 132,677</u> | <u>\$ 2,589,211</u> |

See accompanying notes to the consolidated financial statements.

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (continued)
FOR THE YEAR ENDED JUNE 30, 2010

| | | <u>Supporting Services</u> | | |
|------------------------------------|----------------------|----------------------------|--------------------|---------------------|
| | <u>Total Program</u> | <u>Management and</u> | <u>Fundraising</u> | <u>Expenses</u> |
| | <u>Services</u> | <u>General</u> | | |
| Salaries | \$ 1,138,793 | \$ 349,222 | \$ - | \$ 1,488,015 |
| Payroll taxes and benefits | 205,049 | 66,204 | - | 271,253 |
| Total personnel costs | 1,343,842 | 415,426 | - | 1,759,268 |
| Bad debts | 9,300 | - | - | 9,300 |
| Communications | 37,029 | - | - | 37,029 |
| Contracted services | 212,395 | 268 | - | 212,663 |
| Dues and subscriptions | 1,808 | 995 | - | 2,803 |
| Insurance | 45,833 | - | - | 45,833 |
| Interest | 47,272 | 601 | - | 47,873 |
| Miscellaneous | 51,655 | 3,076 | 554 | 55,285 |
| Professional fees | 59,880 | 125,328 | - | 185,208 |
| Rent | 116,847 | - | - | 116,847 |
| Repairs and maintenance | 118,537 | 865 | - | 119,402 |
| Special events | - | - | 111,076 | 111,076 |
| Supplies | 214,135 | 2,884 | - | 217,019 |
| Travel and transportation | 29,259 | 105 | - | 29,364 |
| Utilities | 111,228 | - | - | 111,228 |
| Workshop wages and benefits | 173,502 | - | - | 173,502 |
| Total expenses before depreciation | 2,572,522 | 549,548 | 111,630 | 3,233,700 |
| Depreciation | 16,689 | 188,917 | - | 205,606 |
| Gain/loss on sale of fixed assets | - | 2,596 | - | 2,596 |
| Total expenses | <u>\$ 2,589,211</u> | <u>\$ 741,061</u> | <u>\$ 111,630</u> | <u>\$ 3,441,902</u> |

See accompanying notes to the consolidated financial statements.

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

Cash Flows From Operating Activities:

| | | |
|------------------------|----|-----------|
| Decrease in net assets | \$ | (507,694) |
|------------------------|----|-----------|

Adjustments to reconcile decrease in net assets

to net cash used in operating activities:

| | | | |
|---------------------------------------|----|-----------|-----------|
| Depreciation | \$ | 205,606 | |
| Loss on sale of equipment | | 2,596 | |
| Allowance for doubtful accounts | | (10,574) | |
| Interest income | | (29,687) | |
| Changes in: | | | |
| Accounts receivable | | 44,624 | |
| Inventory | | 2,359 | |
| Prepaid expenses | | (3,388) | |
| Accounts payable | | (26,600) | |
| Loan - State of Tennessee | | (48,308) | |
| Recoupment - State of Tennessee | | (262,270) | |
| Accrued expenses | | (9,691) | |
| Total adjustments | | | (135,333) |
| Net cash used in operating activities | | | (643,027) |

Cash Flows from Investing Activities:

| | | |
|---|----------|---------|
| Net change in cash whose use is limited | 308,876 | |
| Purchases of certificates of deposit | (50,640) | |
| Proceeds from maturities of certificates of deposit | 426,221 | |
| Purchases of equipment | (87,927) | |
| Net cash provided by investing activities | | 596,530 |

Cash Flows from Financing Activities:

| | | |
|---------------------------------------|----------|----------|
| Payments on long-term debt | (20,123) | |
| Net cash used in financing activities | | (20,123) |

| | | |
|----------------------|--|----------|
| Net decrease in cash | | (66,620) |
|----------------------|--|----------|

| | | |
|--------------------------|--|---------|
| Cash - beginning of year | | 144,470 |
|--------------------------|--|---------|

| | | |
|--------------------|----|--------|
| Cash - end of year | \$ | 77,850 |
|--------------------|----|--------|

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the year ended June 30, 2010, was \$47,873.

During the year the Organization transferred assets with a net book value of \$1,166,072 to a related party.

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - Summary of Significant Accounting Policies

a. **Nature of Activities**

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

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

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

b. **Basis of Presentation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, our net assets and changes therein are classified and reported as follows:

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

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by our actions and/or the passage of time. Restrictions that are fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as unrestricted.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that are permanent in nature. 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.

c. **Cash and Cash Equivalents**

For purposes of the Consolidated Statement of Cash Flows, we consider all unrestricted cash and investment instruments purchased with original maturities of three months or less to be cash equivalents. At June 30, 2010, there were no cash equivalents.

d. **Principles of Consolidation**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. We consolidate all entities that are controlled by ownership of a majority voting interest. As of June 30, 2010, the Center owns 100% of BWP, all activities of BWP have been consolidated, and all inter-company transactions have been eliminated in accordance with generally accepted accounting principles.

e. **Concentration of Credit Risk**

We maintain 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 it is exposed to any significant credit risk on its cash.

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - Summary of Significant Accounting Policies (continued)

f. Accounts Receivable

Bad debts are recognized on the allowance method based on historical experience and our evaluation of outstanding accounts. We have reserved \$16,287 in potential bad debts at June 30, 2010.

g. Investments

We have adopted the accounting standard relating to the fair market investment valuation. This standard establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standard defines fair value at the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The adoption of the standard had no impact on any asset's financial position or results of operations. The standard applies to all assets and liabilities that are measured and reported on a fair value basis and enables the reader of the consolidated 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. The statement requires that each asset and liability carried at fair value be 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 that are not corroborated by market data

All of our investments are based on level 1 inputs at the active market price as of June 30, 2010.

h. Inventory

Inventory is recorded at fair market value on a first in, first out basis.

i. Property and Equipment

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

Property and equipment donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long the donated assets must be maintained, 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 at that time.

i. Property and Equipment (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.

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - Summary of Significant Accounting Policies (continued)

j. **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. We are the sole member of Bagel Works and Perks, which is a nonprofit Tennessee limited liability company and is exempt from Tennessee Franchise and Excise tax. The Internal Revenue Service considers BWP to be a disregarded entity.

Therefore, no provision for income taxes is included in the accompanying consolidated financial statements.

k. **Functional Allocation of Expenses**

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

l. **Use of Estimates**

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

m. **Fair Values of Financial Instruments**

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

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

n. **Donated Services**

We receive a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. No amounts have been recognized in the Consolidated Statements of Activities because the criteria for recognition have not been satisfied.

o. **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. Rates paid to us are determined by the State of Tennessee per client based on the level of care required.

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 2 - Accounts Receivable

At June 30, 2010, we were due the following amounts:

| | |
|--|-------------------|
| Production contracts | \$ 22,400 |
| Tennessee Department of Intellectual Disabilities Services | 165,174 |
| Residential | 21,109 |
| Special events | 29,879 |
| Bagel Works customers | <u>3,152</u> |
| | 241,714 |
| Less: allowance for bad debts | <u>(16,287)</u> |
| | <u>\$ 225,427</u> |

NOTE 3 - Investments

At June 30, 2010, we had a certificate of deposit and shares of preferred stock included in investments as follows:

| | |
|---|-------------------|
| Certificate of deposit with a rate of 3.92% that matures in December 2010 | \$ 616,795 |
| Eight shares of preferred stock in Meriwether Capital Corporation | <u>8,000</u> |
| | <u>\$ 624,795</u> |

NOTE 4 - Net Assets

At June 30, 2010, 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, 2010, we held assets whose use was temporarily restricted by donors or grantors as follows:

| | |
|----------------------------------|-------------------|
| Residential Program - THDA grant | \$ 280,868 |
| Residential Program - MDHA grant | 109,829 |
| Memorials | 4,800 |
| Bar code equipment | 4,026 |
| Sensory garden | <u>22,000</u> |
| | <u>\$ 421,523</u> |

Also at June 30, 2010, the Community Foundation of Middle Tennessee, a non-profit organization, is in control of an endowment fund for the Rochelle Center. The Foundation has ultimate authority and control over all property of the fund and the income derived therefrom; however, the endowment is considered to be a reciprocal transfer and is therefore recorded as a permanently restricted asset on the Consolidated Statement of Financial Position of the Organization. The balance of the fund at June 30, 2010, was \$5,021.

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 4 - Net Assets (continued)

The activity in the permanently restricted net asset, as held by the Community Foundation of Middle Tennessee in a pooled fund, for the Center is as follows:

| | | |
|--------------------------|----|-------------------|
| Balance at July 1, 2009 | \$ | 4,480 |
| Interest income | \$ | 90 |
| Realized gain | | 155 |
| Unrealized gain | | 330 |
| Administrative fees | | (20) |
| Investment fees | | (14) |
| | | <hr/> 541 |
| Balance at June 30, 2010 | \$ | <hr/> 5,021 <hr/> |

NOTE 5 - Long-term Debt

Long-term debt at June 30, 2010, consists of the following:

| | | |
|---|----|---------|
| 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 located at 1132 Graycroft Avenue, Madison, Tennessee. | \$ | 173,378 |
| First mortgage note payable to U.S. Bank with a maturity of June 2, 2014. Monthly payments of \$325 are required based on 25 years amortization with interest at 4.94%. The note is collateralized by real and personal property located at 1088 12th Avenue South, Nashville, Tennessee. | | 48,532 |
| First mortgage note payable to Avenue Bank with a maturity of April 16, 2013. Monthly payments of \$1,587 are required based on a 5 year amortization with interest at 5.5%. The note is collateralized by real and personal property located at 7244 Old Harding Pike, Nashville, Tennessee, 209 Wellington Drive, Nashville, Tennessee, and 4412 Gra Mar, Nashville, Tennessee. | | 245,054 |
| First mortgage note payable to Avenue Bank with a maturity of March 12, 2013. Monthly payments of \$495 are required based on a 5 year amortization with interest at 5.5%. The note is collateralized by real and personal property located at 4560 White's Creek Pike, White's Creek, TN. | | 76,293 |
| First mortgage note payable to Avenue Bank with a maturity of March 5, 2013. Monthly payments of \$619 are required based on a 5 year amortization with interest at 5.5%. The note is collateralized by real and personal property located at 212 Foxwood Lane, Nashville, TN. | | 95,403 |

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 5 - Long-term Debt (continued)

First mortgage note payable to Sara Wood with a maturity of November 2, 2011. Monthly payments of \$537 are required, including 5% interest. The remaining principal amount is due in December 2012. The note is collateralized by real property located at 4536 Andrew Jackson Parkway, Nashville, Tennessee. 94,324

First mortgage note payable to Avenue Bank with a maturity of December 29, 2013. Monthly payments of \$494 are required with interest at 5.5%. The note is collateralized by real property located at 6244 Rocky Top Drive in Antioch, Tennessee. 77,647

Less: current maturities (112,738)

\$ 697,893

The following is a schedule of future maturities:

Year Ending June 30,

| | |
|------------|-------------------|
| 2011 | \$ 112,738 |
| 2012 | 19,429 |
| 2013 | 478,956 |
| 2014 | 157,709 |
| 2015 | 1,901 |
| Thereafter | 39,898 |
| | <u>\$ 810,631</u> |

NOTE 6 - Accrued Expenses

At June 30, 2010, expenses were accrued for the following:

| | |
|--------------------------|------------------|
| Accrued paid time off | \$ 27,530 |
| Accrued wages payable | 25,074 |
| Accrued interest payable | 2,873 |
| Other accruals | 5,149 |
| | <u>\$ 60,626</u> |

NOTE 7 - Lease Agreement

We lease various office equipment and real property under lease arrangements classified as operating leases. The leases are payable in monthly payments totaling \$6,560 and expire at various dates through June 2011. Total rent expense for the year ended June 30, 2010, was \$116,847.

Future minimum lease payments are as follows:

Year Ending June 30,

| | |
|------|------------------|
| 2011 | <u>\$ 72,084</u> |
|------|------------------|

THE ROCHELLE CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 8 - 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.

Lawsuits

From time to time, we may be named as a defendant in lawsuits filed by a former employee or one of our clients. At June 30, 2010, we do not believe that any claims have merit and intend to vigorously defend our position for all outstanding claims.

NOTE 9 – Investment in Subsidiary Adjustment

A prior period adjustment has been recorded in the amount of \$48,971 to account for Bagel Works loss as of June 30, 2009, that was not previously reported on the Center's audited consolidated financial statements. This adjustment decreased the Center's net assets at the beginning of the year by \$48,971. The adjustment had no effect on the beginning net asset amounts on the consolidated financial statements.

NOTE 10 - Foundation

The W.R. Rochelle Foundation, Inc. (Foundation), a related party, was created in the 2010 fiscal year. We have not yet begun the process of securing tax exempt status for the Foundation. During the year ended June 30, 2010, due to a miscommunication with a third party, real property assets in the amount of \$1,166,070 were transferred from the Center to the Foundation. The net book value of those real property assets has been recorded as a long-term receivable at June 30, 2010. As of October 1, 2010, those real property assets have been transferred back to the Center. In the future, when the tax exempt status of the Foundation is secure, the Foundation may serve as the lessor of certain real estate in the Center's residential program.

NOTE 11 - Subsequent Events

THDA Grant

During the year ended June 30, 2009, we were awarded \$250,000 from THDA to purchase a house for the residential program in either Williamson County or Cheatham County, Tennessee. During the year ended June 30 2010, we formally refused the grant. We do not have plans for a residential program in either Williamson or Cheatham County.

Subsequent Events

We have evaluated events subsequent to the year ending June 30, 2010. As of October 1, 2010, the date that the consolidated financial statements were available to be issued, no events subsequent to the Consolidated Statement of Financial Position date are considered necessary to be included in the consolidated financial statements for the year ended June 30, 2010.



Charles Akersloot, III
Lisa L. Patterson
Sarah C. Hardee

To the Board of Directors
The Rochelle Center and Subsidiary

Our report on our audit of the basic consolidated financial statements of The Rochelle Center and Subsidiary for 2010 appears on page 1. This audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information on pages 16-22 is presented for the purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

APh CPAs

July 29, 2010

Except for Note 10, as to which the date is October 1, 2010

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION
JUNE 30, 2010

ASSETS

| | <u>The Rochelle Center</u> | <u>Bagel Works</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|--------------------------------|--------------------|---------------------|---------------------|
| Current Assets: | | | | |
| Cash | \$ 50,309 | \$ 27,541 | \$ - | \$ 77,850 |
| Investments | 624,795 | - | - | 624,795 |
| Receivables, net of allowance for doubtful accounts of \$16,287 | 222,275 | 3,152 | | 225,427 |
| Inventory | - | 4,566 | - | 4,566 |
| Prepaid expenses | 19,690 | 9,425 | - | 29,115 |
| Total current assets | <u>917,069</u> | <u>44,684</u> | <u>-</u> | <u>961,753</u> |
| Investment in Bagel Works | <u>100,835</u> | <u>-</u> | <u>(100,835)</u> | <u>-</u> |
| Property and Equipment: | | | | |
| Land | 49,331 | - | - | 49,331 |
| Buildings | 266,393 | - | - | 266,393 |
| Leasehold improvements | - | 20,446 | - | 20,446 |
| Equipment | 1,293,513 | 76,632 | - | 1,370,145 |
| | <u>1,609,237</u> | <u>97,078</u> | <u>-</u> | <u>1,706,315</u> |
| Less: accumulated depreciation | <u>(1,106,015)</u> | <u>(24,957)</u> | <u>-</u> | <u>(1,130,972)</u> |
| | <u>503,222</u> | <u>72,121</u> | <u>-</u> | <u>575,343</u> |
| Other Asset: | | | | |
| Receivable from the W.R. Rochelle Foundation | <u>1,166,070</u> | <u>-</u> | <u>-</u> | <u>1,166,070</u> |
| Assets Whose Use is Limited: | | | | |
| Cash - restricted by the donor | 30,827 | - | - | 30,827 |
| Investments - Community Foundation | 5,021 | - | - | 5,021 |
| Cash - restricted by the board | 300,000 | - | - | 300,000 |
| Buildings | 390,696 | - | - | 390,696 |
| Total assets whose use is limited | <u>726,544</u> | <u>-</u> | <u>-</u> | <u>726,544</u> |
| | <u>\$ 3,413,740</u> | <u>\$ 116,805</u> | <u>\$ (100,835)</u> | <u>\$ 3,429,710</u> |

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION
JUNE 30, 2010

LIABILITIES AND NET ASSETS

| | <u>The Rochelle Center</u> | <u>Bagel Works</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|--------------------------------|--------------------|---------------------|---------------------|
| Current Liabilities: | | | | |
| Current portion of long-term debt | \$ 112,738 | \$ - | \$ - | \$ 112,738 |
| Accounts payable | 101,890 | 13,761 | | 115,651 |
| Accrued expenses | 58,417 | 2,209 | - | 60,626 |
| Total current liabilities | <u>273,045</u> | <u>15,970</u> | <u>-</u> | <u>289,015</u> |
| Long-term debt, net of current installments | 697,893 | - | - | 697,893 |
| | <u>970,938</u> | <u>15,970</u> | <u>-</u> | <u>986,908</u> |
| Net Assets: | | | | |
| Unrestricted: | | | | |
| Unrestricted net assets | 1,716,258 | - | - | 1,716,258 |
| Unrestricted board-designated | 300,000 | - | - | 300,000 |
| Total unrestricted net assets | <u>2,016,258</u> | <u>-</u> | <u>-</u> | <u>2,016,258</u> |
| Restricted: | | | | |
| Temporarily restricted net assets | 421,523 | - | - | 421,523 |
| Permanently restricted net assets | 5,021 | - | - | 5,021 |
| Total restricted net assets | <u>426,544</u> | <u>-</u> | <u>-</u> | <u>426,544</u> |
| Member's equity | - | 100,835 | (100,835) | - |
| Total net assets | <u>2,442,802</u> | <u>100,835</u> | <u>(100,835)</u> | <u>2,442,802</u> |
| | <u>\$ 3,413,740</u> | <u>\$ 116,805</u> | <u>\$ (100,835)</u> | <u>\$ 3,429,710</u> |

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATING SCHEDULES OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

| | <u>The Rochelle Center</u> | <u>Bagel Works</u> | <u>Eliminations</u> | <u>Total</u> |
|---|--------------------------------|--------------------|---------------------|---------------------|
| Support and Revenues: | | | | |
| Contributions | \$ 30,928 | \$ - | \$ - | \$ 30,928 |
| United Way | 36,289 | - | - | 36,289 |
| Government grants and contracts | 1,959,231 | - | - | 1,959,231 |
| Supported employment | 13,167 | - | - | 13,167 |
| Program fees | 829 | - | - | 829 |
| Residential income | 101,792 | - | - | 101,792 |
| Workshop sales | 340,208 | 264,510 | - | 604,718 |
| Freight revenue | 12,040 | - | - | 12,040 |
| Special events | 142,077 | - | - | 142,077 |
| Interest and investment income, net | 31,580 | 585 | - | 32,165 |
| Miscellaneous | 972 | - | - | 972 |
| | <u>2,669,113</u> | <u>265,095</u> | <u>-</u> | <u>2,934,208</u> |
| Total support and revenues | | | | |
| Expenses: | | | | |
| Program services: | | | | |
| Developmental services | 232,946 | - | - | 232,946 |
| Residential services | 1,052,449 | - | - | 1,052,449 |
| Production center | 817,024 | 354,115 | - | 1,171,139 |
| Supported employment | 132,677 | - | - | 132,677 |
| | <u>2,235,096</u> | <u>354,115</u> | <u>-</u> | <u>2,589,211</u> |
| Total program services | | | | |
| Supporting services: | | | | |
| Management and general | 830,081 | - | (89,020) | 741,061 |
| Fundraising | 111,630 | - | - | 111,630 |
| | <u>941,711</u> | <u>-</u> | <u>(89,020)</u> | <u>852,691</u> |
| Total supporting services | | | | |
| Total expenses | <u>3,176,807</u> | <u>354,115</u> | <u>(89,020)</u> | <u>3,441,902</u> |
| | | | | |
| Increase (decrease) in net assets | <u>(507,694)</u> | <u>(89,020)</u> | <u>89,020</u> | <u>(507,694)</u> |
| | | | | |
| Member contribution | <u>-</u> | <u>164,116</u> | <u>(164,116)</u> | <u>-</u> |
| | | | | |
| Balance at June 30, 2009, as previously reported | 2,999,467 | 25,739 | (74,710) | 2,950,496 |
| | | | | |
| Prior period adjustment | <u>(48,971)</u> | <u>-</u> | <u>48,971</u> | <u>-</u> |
| | | | | |
| Balance at June 30, 2009, as restated | <u>2,950,496</u> | <u>25,739</u> | <u>(25,739)</u> | <u>2,950,496</u> |
| | | | | |
| Balance at June 30, 2010 | <u>\$ 2,442,802</u> | <u>\$ 100,835</u> | <u>\$ (100,835)</u> | <u>\$ 2,442,802</u> |

THE ROCHELLE CENTER AND SUBSIDIARY
CONSOLIDATING SCHEDULES OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

| | <u>The Rochelle Center</u> | <u>Bagel Works</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|--------------------------------|--------------------|---------------------|---------------------|
| Cash Flows from Operating Activities: | | | | |
| Decrease in net assets | \$ (507,694) | \$ (89,020) | \$ 89,020 | \$ (507,694) |
| Adjustments to reconcile decrease in net assets to cash used in operating activities: | | | | |
| Depreciation | 188,917 | 16,689 | - | 205,606 |
| (Gain)/Loss on sale of equipment | 2,596 | - | - | 2,596 |
| Allowance for doubtful accounts | (10,574) | - | - | (10,574) |
| Interest income | (29,687) | - | - | (29,687) |
| Changes in: | | | | |
| Accounts receivable | 43,967 | 657 | - | 44,624 |
| Inventory | - | 2,359 | - | 2,359 |
| Prepaid expenses | (2,978) | (410) | - | (3,388) |
| Accounts payable | (58,780) | 32,180 | - | (26,600) |
| Loan - State of Tennessee | (48,308) | - | - | (48,308) |
| Recoupment - State of Tennessee | (262,270) | - | - | (262,270) |
| Accrued expenses | (9,740) | 49 | - | (9,691) |
| Total adjustments | (186,857) | 51,524 | - | (135,333) |
| Net cash used in operating activities | (694,551) | (37,496) | 89,020 | (643,027) |
| Cash Flows from Investing Activities: | | | | |
| Investment in subsidiary | 89,020 | - | (89,020) | - |
| Net change in cash whose use is limited | 308,876 | - | - | 308,876 |
| Purchase of certificates of deposit | (50,640) | - | - | (50,640) |
| Proceeds from maturities of certificates of deposit | 426,221 | - | - | 426,221 |
| Purchases of equipment | (87,158) | (769) | - | (87,927) |
| Net cash provided by (used in) investing activities | 686,319 | (769) | (89,020) | 596,530 |
| Cash Flows from Financing Activities: | | | | |
| Payments on long-term debt | (20,123) | - | - | (20,123) |
| Net cash used in financing activities | (20,123) | - | - | (20,123) |
| Net decrease in cash | (28,355) | (38,265) | - | (66,620) |
| Cash - beginning of year | 78,664 | 65,806 | - | 144,470 |
| Cash - end of year | \$ 50,309 | \$ 27,541 | \$ - | \$ 77,850 |

**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**



Charles Akersloot, III
Lisa L. Patterson
Sarah C. Hardee

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
The Rochelle Center

We have audited the financial statements of The Rochelle Center and Subsidiary as of and for the year ended June 30, 2010, and have issued our report thereon dated July 29, 2010, except for Note 10, which is dated October 1, 2010. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered The Rochelle Center's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Rochelle Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Rochelle Center's financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management and The Board of Directors of The Rochelle Center in a separate letter dated July 29, 2010.

This report is intended solely for the information and use of management, the Board of Directors of The Rochelle Center, and the Tennessee Department of Intellectual Disability Services, and is not intended to be and should not be used by anyone other than these specified parties.

APH CPAs

Franklin, TN

July 29, 2010

Except for Note 10, as to which the date is October 1, 2010

THE ROCHELLE CENTER
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2010

In connection with our audit of the 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 prior audit findings are reported below.

Findings – Financial Statements Audit

2009-1

Condition: Four consumers did not have an approved ISP in their file for the period selected for testing.

Effect: It is difficult to confirm eligibility for prior billings without all ISP forms.

Status: Finding has been corrected in the current year.

2009-2

Condition: Documentation was not found for four days that were billed to the State.

Effect: The state was billed for four days that four consumers were not in attendance.

Status: Finding has been corrected in the current year. No over or under billings to the State were noted in the current year.

2009-3

Condition: Documentation was found for four days but the amounts were not billed to the State.

Effect: The state was under billed for four days that two consumers were in attendance.

Status: Finding has been corrected in the current year. No over or under billings to the State were noted in the current year.

2009-4

Condition: Documentation in the form of the "daily note" was not found for one day but the amount was billed to the State.

Effect: The state was properly billed; however, the daily notes do not reflect the consumer's attendance.

Status: Finding has been corrected in the current year. No over or under billings to the State were noted in the current year.