

**THE ROCHELLE CENTER AND SUBSIDIARY**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**WITH SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2011**

(With Independent Auditor's Report Thereon)

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

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## PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

### 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, 2011, 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, 2011, and the changes in its consolidated net assets 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 September 22, 2011, 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* should be considered in assessing the results of our audit.

*Patterson Hardee & Ballentine*

September 22, 2011

**THE ROCHELLE CENTER AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2011**

**ASSETS**

Current Assets:

Cash	\$ 357,459	
Certificates of deposit	221,694	
Receivables, net of allowance for doubtful accounts of \$19,232	339,467	
Inventory	4,566	
Prepaid expenses	36,311	
Total current assets		\$ 959,497

Property and Equipment:

Land	41,051	
Buildings	2,368,135	
Leasehold improvements	20,446	
Equipment	1,382,564	
	3,812,196	
Less: accumulated depreciation	(2,361,244)	
Total property and equipment		1,450,952

Assets Whose Use is Limited:

Cash - restricted by the donor	30,826	
Investments - Community Foundation	6,063	
Cash - designated by the board of directors	300,000	
Buildings	255,335	
Total assets whose use is limited		592,224

Total assets		<u>\$ 3,002,673</u>
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**THE ROCHELLE CENTER AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**  
**JUNE 30, 2011**

**LIABILITIES AND NET ASSETS**

Current Liabilities:			
Current installments of long-term debt	\$	109,743	
Accounts payable		108,313	
Accrued expenses		<u>92,286</u>	
Total current liabilities			\$ 310,342
Long-term debt, net of current installments			
			<u>588,378</u>
Total liabilities			<u>898,720</u>
Net Assets:			
Unrestricted:			
Undesignated		1,511,729	
Board-designated		<u>300,000</u>	
Total unrestricted net assets			1,811,729
Temporarily restricted			
		286,161	
Permanently restricted		<u>6,063</u>	
Total restricted net assets			<u>292,224</u>
Total net assets			<u>2,103,953</u>
Total liabilities and net assets			<u>\$ 3,002,673</u>

See accompanying notes to consolidated financial statements.

**THE ROCHELLE CENTER AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues:				
Contributions	\$ 61,739	\$ -	\$ -	\$ 61,739
United Way	35,912	-	-	35,912
Government grants and contracts	2,172,437	-	-	2,172,437
Supported employment	12,577	-	-	12,577
Program fees	2,790	-	-	2,790
Residential income	165,473	-	-	165,473
Workshop sales	517,902	-	-	517,902
Freight revenue	12,501	-	-	12,501
Special events	173,397	-	-	173,397
Interest and investment income, net	16,597	-	1,082	17,679
Miscellaneous	1,302	-	-	1,302
Net assets released from restrictions	135,402	(135,362)	(40)	-
Total support and revenues	3,308,029	(135,362)	1,042	3,173,709
Expenses:				
Program services:				
Developmental services	345,186	-	-	345,186
Residential services	1,206,182	-	-	1,206,182
Production center	1,130,602	-	-	1,130,602
Supported employment	159,148	-	-	159,148
Total program services	2,841,118	-	-	2,841,118
Supporting services:				
Management and general	553,732	-	-	553,732
Fundraising	117,708	-	-	117,708
Total supporting services	671,440	-	-	671,440
Total expenses	3,512,558	-	-	3,512,558
Increase (decrease) in net assets	(204,529)	(135,362)	1,042	(338,849)
Net assets - beginning of year,	2,016,258	421,523	5,021	2,442,802
Net assets - end of year	\$ 1,811,729	\$ 286,161	\$ 6,063	\$ 2,103,953

See accompanying notes to the consolidated financial statements.

**THE ROCHELLE CENTER AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Program Services				
	<u>Developmental</u> <u>Services</u>	<u>Residential</u> <u>Services</u>	<u>Production</u> <u>Center</u>	<u>Supported</u> <u>Employment</u>	<u>Total Program</u> <u>Services</u>
Salaries	\$ 226,888	\$ 538,158	\$ 384,824	\$ 59,492	\$ 1,209,362
Payroll taxes and benefits	28,611	95,550	72,631	8,452	205,244
Total personnel costs	255,499	633,708	457,455	67,944	1,414,606
Bad debts	-	2,700	1,200	-	3,900
Bank fees	6,006	-	-	-	6,006
Communications	3,615	23,571	14,503	-	41,689
Contracted services	20,436	45,388	119,012	10,202	195,038
Dues and subscriptions	637	-	2,156	-	2,793
Insurance	8,805	16,025	21,935	6,320	53,085
Interest	-	38,543	-	-	38,543
Miscellaneous	941	14,284	7,545	1,115	23,885
Professional fees	1,555	15,624	6,575	31,528	55,282
Rent	1,725	3,662	100,717	-	106,104
Repairs and maintenance	26,777	119,755	24,679	1,983	173,194
Special events	-	-	-	-	-
Supplies	2,247	51,704	151,512	2,225	207,688
Travel and transportation	1,231	11,725	12,013	3,844	28,813
Utilities	15,712	58,831	45,510	-	120,053
Workshop wages and benefits	-	-	148,273	33,987	182,260
Depreciation	-	-	17,517	-	17,517
Repayment of MDHA monies	-	137,282	-	-	137,282
Gain/loss on sale of fixed assets	-	33,380	-	-	33,380
Total expenses	\$ 345,186	\$ 1,206,182	\$ 1,130,602	\$ 159,148	\$ 2,841,118

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, 2011**

		<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	\$ 1,209,362	\$ 242,536	\$ -	\$ 1,451,898
Payroll taxes and benefits	205,244	66,387	-	271,631
Total personnel costs	1,414,606	308,923	-	1,723,529
Bad debts	3,900	-	-	3,900
Bank fees	6,006	-	-	6,006
Communications	41,689	-	-	41,689
Contracted services	195,038	336	-	195,374
Dues and subscriptions	2,793	370	-	3,163
Insurance	53,085	8,155	-	61,240
Interest	38,543	-	-	38,543
Miscellaneous	23,885	1,647	991	26,523
Professional fees	55,282	16,240	-	71,522
Rent	106,104	-	-	106,104
Repairs and maintenance	173,194	35,856	-	209,050
Special events	-	-	116,717	116,717
Supplies	207,688	2,799	-	210,487
Travel and transportation	28,813	1,189	-	30,002
Utilities	120,053	-	-	120,053
Workshop wages and benefits	182,260	-	-	182,260
Depreciation	17,517	178,217	-	195,734
Repayment of MDHA monies	137,282	-	-	137,282
Gain/loss on sale of fixed assets	33,380	-	-	33,380
Total expenses	\$ 2,841,118	\$ 553,732	\$ 117,708	\$ 3,512,558

See accompanying notes to the consolidated financial statements.

**THE ROCHELLE CENTER AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Cash Flows From Operating Activities:		
Decrease in net assets		\$ (338,849)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	\$ 195,734	
Loss on sale of equipment	33,380	
Reinvested interest income	(15,835)	
Changes in:		
Accounts receivable	(117,457)	
Allowance for doubtful accounts	2,945	
Inventory	-	
Prepaid expenses	(7,196)	
Assets whose use is limited	134,320	
Accounts payable	(4,947)	
Accrued expenses	31,660	
Total adjustments		252,604
Net cash used in operating activities		(86,245)
Cash Flows from Investing Activities:		
Purchases of certificates of deposit	(220,000)	
Proceeds from maturities of certificates of deposit	630,936	
Proceeds from sale of stock	8,000	
Cash paid on sale of home	(30,369)	
Purchases of equipment	(4,138)	
Net cash provided by investing activities		384,429
Cash Flows from Financing Activities:		
Payments on long-term debt	(18,575)	
Net cash used in financing activities		(18,575)
Net increase in cash		279,609
Cash - beginning of year		77,850
Cash - end of year		\$ 357,459

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Interest paid during the year ended June 30, 2011, was \$38,543.



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

**NOTE 1 - Summary of Significant Accounting Policies**

a. **Nature of Activities**

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

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 not subject to donor-imposed stipulations.

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

Permanently restricted net assets - Net assets subject to permanent donor-imposed stipulations. Generally, the donors of these assets permit us to use all or part of the income earned 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 investment instruments purchased with original maturities of three months or less to be cash equivalents. At June 30, 2011, there were no cash equivalents. At June 30, 2011 we had more cash deposited in financial institutions than is insured by the FDIC, but do not see this excess as a material risk.

d. **Principles of Consolidation**

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

e. **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 it is exposed to any significant credit risk.



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

**NOTE 1 - Summary of Significant Accounting Policies (continued)**

f. Accounts Receivable

We record receivables from promises to give when they are pledged. We record service receivables when the service has been performed. Bad debts are recognized on the allowance method based on historical experience and our evaluation of outstanding accounts.

g. Inventory

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

h. Property and Equipment

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

Property and equipment donated with explicit restrictions regarding their use and contributions of cash which must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long the donated assets must be maintained, we report expirations of donor restrictions when the donated or acquired assets are placed in service and also reclassify the temporarily restricted net assets to unrestricted net assets concurrently.

A portion of the property and equipment is subject to the reversionary interest held by various governmental units in the assets, as well as any proceeds from their disposition through certain dates in the future, typically 15 years from the date of acquisition.

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

We adopted guidance issued by FASB with respect to accounting for uncertain tax positions as of January 1, 2009. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no effect on our financial statements.

We recognize interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. We have no amounts accrued for interest or penalties as of June 30, 2011. We are no longer subject to examination by U.S. federal and state taxing authorities for years before 2007.

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

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

NOTE 1 - Summary of Significant Accounting Policies (continued)

j. 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.

k. Use of Estimates

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

l. 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.

NOTE 2 - Accounts Receivable

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

Production contracts	\$ 32,618
Tennessee Department of Intellectual Disabilities Services	258,819
Residential	29,564
Special events	35,496
Bagel Works	<u>2,202</u>
	358,669
Less: allowance for bad debts	<u>(19,232)</u>
	<u>\$ 339,467</u>

NOTE 3 – Certificate of Deposit

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

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

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

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

Residential Program - THDA grant	\$ 255,335
Memorials	4,800
Bar code equipment	4,026
Sensory garden	<u>22,000</u>
	<u>\$ 286,161</u>

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

**NOTE 4 - Net Assets (continued)**

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

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

Balance at July 1, 2010		\$ 5,021
Interest income	\$ 104	
Realized gain	143	
Unrealized gain	835	
Administrative fees	(23)	
Investment fees	(17)	
		<u>1,042</u>
Balance at June 30, 2011		<u>\$ 6,063</u>

**NOTE 5 - Long-term Debt**

Long-term debt at June 30, 2011, 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.	\$ 167,987
First mortgage note payable to U.S. Bank with a maturity of June 2, 2014. Monthly payments of \$325 are required based on 25 years amortization with interest at 4.94%. The note is collateralized by real and personal property located at 1088 12th Avenue South, Nashville, Tennessee.	47,023
First mortgage note payable to Avenue Bank with a maturity of April 16, 2013. Monthly payments of \$1,587 are required based on a 5 year amortization with interest at 5.5%. The note is collateralized by real and personal property located at 7244 Old Harding Pike, Nashville, Tennessee, 209 Wellington Drive, Nashville, Tennessee, and 4412 Gra Mar, Nashville, Tennessee.	240,010
First mortgage note payable to Avenue Bank with a maturity of March 12, 2013. Monthly payments of \$495 are required based on a 5 year amortization with interest at 5.5%. The note is collateralized by real and personal property located at 4560 White's Creek Pike, White's Creek, TN.	74,557



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

**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 November 2011. The note is collateralized by real property located at 4536 Andrew Jackson Parkway, Nashville, Tennessee.	92,550
First mortgage note payable to Avenue Bank with a maturity of December 29, 2013. Monthly payments of \$494 are required with interest at 5.5%. The note is collateralized by real property located at 6244 Rocky Top Drive in Antioch, Tennessee.	75,994
	698,121
Less: current maturities	(109,743)
	<u>\$ 588,378</u>

The following is a schedule of future maturities:

<u>Year Ending June 30,</u>	
2012	\$ 109,743
2013	316,417
2014	230,110
2015	1,901
2016	1,997
Thereafter	37,953
	<u>\$ 698,121</u>

**NOTE 6 - Accrued Expenses**

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

Accrued paid time off	\$ 27,290
Accrued wages payable	47,205
Other accruals	17,791
	<u>\$ 92,286</u>

**NOTE 7 - Lease Agreement**

We lease various office equipment and real property under lease arrangements classified as operating leases. Most of our leases are on a month-to-month or as needed basis. We have one lease with a fixed term and the payments are \$554 payable monthly. This lease expires in September 2014. Total rent expense for the year ended June 30, 2011, was \$106,104.

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

NOTE 7 - Lease Agreement (continued)

Future minimum lease payments are as follows:

Year Ending June 30,

2012	\$ 6,648
2013	<u>554</u>
	<u>\$ 7,202</u>

NOTE 8 - Concentrations and Contingencies

Revenue Sources

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

Accounts Payable

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

NOTE 9 - Subsequent Events

We have evaluated events subsequent to the year ending June 30, 2011. As of September 22, 2011, 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, 2011.



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT  
ON ADDITIONAL INFORMATION

To the Board of Trustees of  
The Rochelle Center and Subsidiary

We have audited the consolidated financial statements The Rochelle Center and Subsidiary as of and for the year ended June 30, 2011, and have issued our report thereon dated September 22, 2011, which contained an unqualified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. 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 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.

*Patterson Hardee & Ballentine*

September 22, 2011



**The Rochelle Center and Subsidiary**  
**Schedule of Expenditures of Federal and State Awards**  
**For The Year Ended June 30, 2011**

Pass-Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>Federal Financial Assistance</u>						
None	N/A	N/A	\$ -	\$ -	\$ -	\$ -
TOTAL FEDERAL AWARDS			-	-	-	-
<u>State Financial Assistance</u>						
Department of Intellectual Disabilities	N/A	GR1134452	\$ -	\$ 100,000	\$ (100,000)	\$ -
TOTAL STATE AWARDS			-	100,000	(100,000)	-
TOTAL FEDERAL & STATE AWARDS			\$ -	\$ 100,000	\$ (100,000)	\$ -

**Note** The accompanying Schedule of Expenditures of Federal and State Awards summarizes the expenditures of The Rochelle Center under programs of the state government for year ended June 30, 2011. The schedule is presented in conformity with the State of Tennessee subrecipient contract payments. Consequently, some amounts presented in this schedule may differ from the amounts presented in or used in the preparation of the basic financial statements. Such differences are the result of timing differences between the State reporting system and generally accepted accounting principles.

**THE ROCHELLE CENTER AND SUBSIDIARY**  
**CONSOLIDATING STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2011**

**ASSETS**

	The Rochelle Center	Bagel Works	Eliminations	Consolidated
Current Assets:				
Cash	\$ 303,028	\$ 54,431	\$ -	\$ 357,459
Certificates of deposit	221,694	-	-	221,694
Receivables, net of allowance for doubtful doubtful accounts of \$19,232	337,265	4,593	(2,391)	339,467
Inventory	-	4,566	-	4,566
Prepaid expenses	26,380	9,931	-	36,311
Total current assets	<u>888,367</u>	<u>73,521</u>	<u>(2,391)</u>	<u>959,497</u>
Investment in Bagel Works	<u>116,165</u>	<u>-</u>	<u>(116,165)</u>	<u>-</u>
Property and Equipment:				
Land	41,051	-	-	41,051
Buildings	2,368,135	-	-	2,368,135
Leasehold improvements	-	20,446	-	20,446
Equipment	1,301,794	80,770	-	1,382,564
	<u>3,710,980</u>	<u>101,216</u>	<u>-</u>	<u>3,812,196</u>
Less: accumulated depreciation	<u>(2,318,770)</u>	<u>(42,474)</u>	<u>-</u>	<u>(2,361,244)</u>
	<u>1,392,210</u>	<u>58,742</u>	<u>-</u>	<u>1,450,952</u>
Assets Whose Use is Limited:				
Cash - restricted by the donor	30,826	-	-	30,826
Investments - Community Foundation	6,063	-	-	6,063
Cash - designated by the board	300,000	-	-	300,000
Buildings	255,335	-	-	255,335
Total assets whose use is limited	<u>592,224</u>	<u>-</u>	<u>-</u>	<u>592,224</u>
	<u>\$ 2,988,966</u>	<u>\$ 132,263</u>	<u>\$ (118,556)</u>	<u>\$ 3,002,673</u>

**THE ROCHELLE CENTER AND SUBSIDIARY**  
**CONSOLIDATING STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2011**

**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				
term debt	\$ 109,743	\$ -	\$ -	\$ 109,743
Accounts payable	100,090	10,614	(2,391)	108,313
Accrued expenses	86,802	5,484	-	92,286
Total current liabilities	<u>296,635</u>	<u>16,098</u>	<u>(2,391)</u>	<u>310,342</u>
Long-term debt, net of current				
current installments	588,378	-	-	588,378
	<u>885,013</u>	<u>16,098</u>	<u>(2,391)</u>	<u>898,720</u>
Net Assets:				
Unrestricted:				
Unrestricted net assets	1,511,729	-	-	1,511,729
Unrestricted board-				
designated	300,000	-	-	300,000
Total unrestricted	<u>1,811,729</u>	<u>-</u>	<u>-</u>	<u>1,811,729</u>
Restricted:				
Temporarily restricted	286,161	-	-	286,161
Permanently restricted	6,063	-	-	6,063
Total restricted	<u>292,224</u>	<u>-</u>	<u>-</u>	<u>292,224</u>
Member's equity	<u>-</u>	<u>116,165</u>	<u>(116,165)</u>	<u>-</u>
Total net assets	<u>2,103,953</u>	<u>116,165</u>	<u>(116,165)</u>	<u>2,103,953</u>
	<u>\$ 2,988,966</u>	<u>\$ 132,263</u>	<u>\$ (118,556)</u>	<u>\$ 3,002,673</u>

**THE ROCHELLE CENTER AND SUBSIDIARY**  
**CONSOLIDATING STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	The Rochelle Center	Bagel Works	Eliminations	Total
Support and Revenues:				
Contributions	\$ 61,739	\$ -	\$ -	\$ 61,739
United Way	4,978	30,934	-	35,912
Government grants and contracts	2,172,437	-	-	2,172,437
Supported employment	12,577	-	-	12,577
Program fees	2,790	-	-	2,790
Residential income	165,473	-	-	165,473
Workshop sales	253,518	269,289	(4,905)	517,902
Freight revenue	12,501	-	-	12,501
Special events	173,397	-	-	173,397
Interest and investment income	17,515	164	-	17,679
Miscellaneous	1,302	-	-	1,302
Total support and revenues	2,878,227	300,387	(4,905)	3,173,709
Expenses:				
Program services:				
Developmental services	331,638	13,548	-	345,186
Residential services	1,206,182	-	-	1,206,182
Production center	803,445	332,062	(4,905)	1,130,602
Supported employment	159,148	-	-	159,148
Total program services	2,500,413	345,610	(4,905)	2,841,118
Supporting services:				
Management and general	553,732	-	-	553,732
Fundraising	117,708	-	-	117,708
Total supporting services	671,440	-	-	671,440
Total expenses	3,171,853	345,610	(4,905)	3,512,558
Loss on subsidiary	45,223		(45,223)	-
Decrease in net assets	(338,849)	(45,223)	45,223	(338,849)
Member contribution	-	60,553	(60,553)	-
Balance at June 30, 2010	2,442,802	100,835	(100,835)	2,442,802
Balance at June 30, 2011	\$ 2,103,953	\$ 116,165	\$ (116,165)	\$ 2,103,953

**THE ROCHELLE CENTER AND SUBSIDIARY**  
**CONSOLIDATING STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	The Rochelle Center	Bagel Works	Eliminations	Consolidated
Cash Flows from Operating Activities:				
Decrease in net assets	\$ (338,849)	\$ (45,223)	\$ 45,223	\$ (338,849)
Adjustments to reconcile decrease in net assets to cash used in operating activities:				
Depreciation	178,217	17,517	-	195,734
Loss on sale of assets	33,380	-	-	33,380
Reinvested interest income	(15,835)	-	-	(15,835)
Decrease in net assets of subsidiary	45,223		(45,223)	-
Changes in:				
Accounts receivable	(116,016)	(1,441)	-	(117,457)
Allowance for doubtful accounts	2,945			2,945
Inventory	-	-	-	-
Prepaid expenses	(6,690)	(506)	-	(7,196)
Assets whose use is limited	134,320	-		134,320
Accounts payable	(1,800)	(3,147)	-	(4,947)
Accrued expenses	28,385	3,275	-	31,660
Total adjustments	282,129	15,698	(45,223)	252,604
Net cash used in operating activities	(56,720)	(29,525)	-	(86,245)
Cash Flows from Investing Activities:				
Investment in subsidiary	(60,553)	-	60,553	-
Purchase of certificates of deposit	(220,000)	-	-	(220,000)
Proceeds from maturities of certificates of deposit	630,936	-	-	630,936
Proceeds from sale of stock	8,000	-	-	8,000
Cash paid on sale of home	(30,369)	-	-	(30,369)
Purchases of equipment	-	(4,138)	-	(4,138)
Net cash provided by (used in) investing activities	328,014	(4,138)	60,553	384,429
Cash Flows from Financing Activities:				
Member contributions	-	60,553	(60,553)	-
Payments on long-term debt	(18,575)	-	-	(18,575)
Net cash used in financing activities	(18,575)	60,553	(60,553)	(18,575)
Net increase in cash	252,719	26,890	-	279,609
Cash - beginning of year	50,309	27,541	-	77,850
Cash - end of year	\$ 303,028	\$ 54,431	\$ -	\$ 357,459



**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**





**PATTERSON, HARDEE & BALLENTINE, P.C.**

Certified Public Accountants

**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 the consolidated financial statements of The Rochelle Center and Subsidiary (the "entity") as of and for the year ended June 30, 2011, and have issued our report thereon dated September 22, 2011. 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**

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

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 consolidated 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 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. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting:

**2011-1 and 2011-2**

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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Rochelle Center and Subsidiary's consolidated 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 consolidated 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 and Responses as items:

2011-1 and 2011-2

We noted certain matters that we reported to management of The Rochelle Center and Subsidiary in a separate letter dated September 22, 2011.

The Rochelle Center and Subsidiary's responses 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.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the Board of Trustees, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Patterson Harder & Ballentine*

September 22, 2011

**THE ROCHELLE CENTER AND SUBSIDIARY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of The Rochelle Center and Subsidiary.
2. Two significant deficiencies determined during the audit of the consolidated financial statements are 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.
3. Two instances of noncompliance of The Rochelle Center and Subsidiary were determined during the audit.

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

2011-1

Criteria:	The Organization is required to maintain documentation of all services provided and billed for all State contracts.
Condition:	Documentation was not found for six days that were billed to the State. One day was billed to the State for which the client was absent. The State was billed for three extra days that were not documented on the attendance log or the consumer notes. The State was under billed by one day for which the Rochelle Center provided services.
Cause:	Billing worksheets were prepared based on daily documentation of attendance for consumers, but the daily notes and/or daily documentation are not reconciled to these attendance records.
Effect:	The State was billed for a total of ten days that consumers were not in attendance or that the daily documentation or notes did not support the amounts billed. The State was not billed for one day for services provided.
Questioned Costs:	The State was incorrectly overbilled \$519.45. Amount was calculated using the number of days unsupported by documentation and the consumers' eligible billing rates. There is no questioned cost for the under billing.
Perspective Information:	We extrapolated the errors found during testing to the population and found that the potential errors would not materially misstate the 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.



**THE ROCHELLE CENTER AND SUBSIDIARY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Management's Response: Management recognizes the importance of complete, contemporaneous documentation. The existing system of internal controls requires that the Outcome Coordinator review the daily, staff prepared client notes to reconcile attendance data. The Director of Finance reviews attendance data for reasonableness and investigates any questionable information such as the addition of new clients; omission of previously existing clients or indications of changes in an individual client's known attendance patterns. It is our understanding from discussions with the auditors that a sample of 60 clients including approximately 1,800 billing days was examined. The indicated errors totaling 12 days constitute an error rate of 0.66%, and thus the sample resulted in a finding of 99.34% accuracy. Furthermore, the detected errors were concentrated in the files under the management of a single Outcome Coordinator who is no longer employed at Rochelle. Their replacement has received training in the importance of accumulating accurate data.

Rochelle does not have the resources to create a staff position to reperform the work of the Outcome Coordinators. Management does intend to engage in a process of internal inspection on a surprise basis whereby all Outcome Coordinators will be subject to having their data verified against original client notes. Any errors detected will be brought to their attention and corrective action will be taken to provide additional training and achieve improved performance.

**THE ROCHELLE CENTER AND SUBSIDIARY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

2011-2

Criteria:	Expenses on remittances for State grant reporting should be in accordance with all grant documents.
Condition:	Correct and eligible expenses were not included on the remittances for State grant reporting and ineligible expenses were included on the remittances.
Cause:	The written grant requirements were not reviewed before sending the remittance for reimbursement.
Effect:	An amended remittance could be required by the State.
Questioned Cost:	Currently, there is no questioned cost associated with this finding.
Perspective Information:	The Center did have proper and eligible expenses in relation to the grant. Those expenses were omitted from the remittances due to erroneous information provided to the Center verbally.
Recommendation:	Regardless of verbal discussions with grantors, the Center should always comply with the terms of all grant documents. Procedures should be implemented to insure that grant documents are reviewed prior to remittances.
Management's Response:	Rochelle's policy requires that a complete understanding of grant documents be attained as an essential element of grant administration. Most of the grants received by Rochelle are of a recurring nature the terms and conditions of which are well understood and supported by long experience. The single grant to which this finding relates was a first time grant and non recurring in nature. Management engaged in communication with granting authorities and relied upon oral instructions in interpreting the grant. Management has subsequently documented this interaction. In the future, Management will pursue written amendments or written clarification of grant terms when it appears the document may differ from other communication received from grant authorities.

