

THE ROCHELLE CENTER

FINANCIAL STATEMENTS

JUNE 30, 2007

(With Independent Auditor's Report Thereon)

THE ROCHELLE CENTER  
FINANCIAL STATEMENTS  
JUNE 30, 2007

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# Akerslout, Patterson & Associates, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

3326 Aspen Grove Drive • Suite 500 • Franklin, TN 37067

Phone: (615) 376-8800 Fax: (615) 376-8816

www.ap-cpas.com

Member of the  
American Institute of  
Certified Public  
Accountants

Member of the  
Tennessee Society of  
Certified Public  
Accountants

Charles Akerslout, III

Lisa Patterson

Sarah C. Hardee

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The Rochelle Center

We have audited the accompanying statement of financial position of The Rochelle Center (a nonprofit organization) as of June 30, 2007, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Rochelle Center as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As stated in Note 7, The Rochelle Center overstated its assets and net assets in a prior period; consequently, a prior period adjustment affecting previously reported net assets has been recorded.

*Akerslout, Patterson & Associates, P.L.L.C.*

August 22, 2007

THE ROCHELLE CENTER  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2007

ASSETS

Current Assets:		
Cash and cash equivalents	\$ 221,538	
Investments	869,267	
Receivables, net of allowance for doubtful accounts of \$5,869	144,473	
Prepaid expenses	<u>18,291</u>	
Total current assets		\$ 1,253,569
Property and Equipment:		
Land	49,332	
Buildings	1,979,672	
Equipment	<u>994,539</u>	
	3,023,543	
Less: accumulated depreciation	<u>(1,632,542)</u>	
		1,391,001
Assets Whose Use is Limited:		
Cash - restricted by the donor	38,731	
Cash - restricted by the board	479,861	
Buildings	<u>357,467</u>	
		<u>876,059</u>
		<u>\$ 3,520,629</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Current installments of long-term debt	\$ 10,678	
Accounts payable	160,605	
Accrued expenses	<u>34,080</u>	
Total current liabilities		\$ 205,363
Long-term debt, net of current installments		<u>585,477</u>
		<u>790,840</u>
Net Assets:		
Unrestricted:		
Undesignated	1,853,730	
Board-designated	<u>479,861</u>	
Total unrestricted		2,333,591
Temporarily restricted		<u>396,198</u>
		<u>2,729,789</u>
		<u>\$ 3,520,629</u>

See accompanying notes to financial statements.

**THE ROCHELLE CENTER**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Support and Revenues:			
Contributions	\$ 14,504	\$ -	\$ 14,504
United Way	57,731	-	57,731
Government grants and contracts	2,328,309	-	2,328,309
Supported employment	16,422	-	16,422
Program fees	23,249	-	23,249
Rental income	76,919	-	76,919
Workshop sales	292,285	-	292,285
Freight revenue	15,117	-	15,117
Special events	97,585	-	97,585
Investment income	41,497	-	41,497
Miscellaneous	3,542	-	3,542
Net assets released from restrictions	<u>25,533</u>	<u>(25,533)</u>	<u>-</u>
Total support and revenues	<u>2,992,693</u>	<u>(25,533)</u>	<u>2,967,160</u>
Expenses:			
Program services:			
Developmental services	598,941	-	598,941
Residential services	653,801	-	653,801
Production center	831,258	-	831,258
Memory Works program	10,773	-	10,773
Supported employment	<u>41,719</u>	<u>-</u>	<u>41,719</u>
Total program services	<u>2,136,492</u>	<u>-</u>	<u>2,136,492</u>
Supporting services:			
Management and general	668,644	-	668,644
Fundraising	<u>38,567</u>	<u>-</u>	<u>38,567</u>
Total supporting services	<u>707,211</u>	<u>-</u>	<u>707,211</u>
Total expenses	<u>2,843,703</u>	<u>-</u>	<u>2,843,703</u>
Increase (decrease) in net assets	148,990	(25,533)	123,457
Net assets, beginning of year, as previously reported	2,209,670	421,731	2,631,401
Prior period adjustment	<u>(25,069)</u>	<u>-</u>	<u>(25,069)</u>
Net assets, beginning of year, as restated	<u>2,184,601</u>	<u>421,731</u>	<u>2,606,332</u>
Net assets, end of year	<u>\$ 2,333,591</u>	<u>\$ 396,198</u>	<u>\$ 2,729,789</u>

See accompanying notes to financial statements.

<u>Supported Employment</u>	<u>Total Program Services</u>	<u>Supporting Services</u>		<u>Total Expenses</u>
		<u>Management and General</u>	<u>Fundraising</u>	
\$ 33,456	\$ 1,126,969	\$ 345,772	\$ -	\$ 1,472,741
5,985	205,830	82,438	-	288,268
39,441	1,332,799	428,210	-	1,761,009
-	170,568	-	-	170,568
169	186,381	25,193	254	211,828
192	118,006	17,402	3,612	139,020
-	89,089	-	-	89,089
-	44,782	354	-	45,136
806	30,544	5,596	-	36,140
283	70,914	6,006	-	76,920
254	21,803	2,119	140	24,062
-	-	9,000	-	9,000
-	34,678	-	-	34,678
574	17,431	309	-	17,740
-	8,874	-	-	8,874
-	9,524	18,874	60	28,458
-	-	-	34,501	34,501
-	1,099	1,000	-	2,099
41,719	2,136,492	514,063	38,567	2,689,122
-	-	154,581	-	154,581
\$ 41,719	\$ 2,136,492	\$ 668,644	\$ 38,567	\$ 2,843,703

THE ROCHELLE CENTER  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2007

Cash Flows From Operating Activities:

Increase in net assets	\$	123,457
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Adjustments to reconcile increase in net assets  
to net cash provided by operating activities:

Depreciation	\$	154,581	
Allowance for doubtful accounts		(6,635)	
Interest income		(32,721)	
Changes in:			
Accounts receivable and deferred revenue		144,635	
Prepaid expenses		(1,183)	
Accrued expenses		1,183	
Accounts payable		<u>56,555</u>	
Total adjustments			<u>316,415</u>
Net cash provided by operating activities			439,872

Cash Flows from Investing Activities:

Purchases of property and equipment		(158,632)	
Net change in cash whose use is limited		15,139	
Proceeds from certificates of deposit		140,230	
Purchases of certificates of deposit		<u>(303,230)</u>	
Net cash used in investing activities			(306,493)

Cash Flows from Financing Activities:

Payments on long-term debt		<u>(9,765)</u>	
Net cash used in financing activities			<u>(9,765)</u>

Net increase in cash and cash equivalents	123,614
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Cash and cash equivalents - beginning of year	<u>97,924</u>
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Cash and cash equivalents - end of year	<u><u>\$ 221,538</u></u>
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Supplemental Cash Flow Information:

Interest paid during the year ended June 30, 2007, was \$34,678.

During the year ended June 30, 2007, the Center financed property in the amount of \$100,000.

THE ROCHELLE CENTER  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies

a. Nature of Activities

The Rochelle Center (the "Center") is a nonprofit organization located in Nashville, Tennessee. For over 30 years, the Rochelle Center has 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.

b. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Center 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 actions of the Center 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 they be maintained permanently by the Center. Generally, the donors of these assets permit the Center 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 Statement of Cash Flows, the Center considers all unrestricted cash and investment instruments purchased with original maturities of three months or less to be cash equivalents.

d. Concentration of Credit Risk

The Center maintains its cash in bank and money market accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts and does not believe that it is exposed to any significant credit risk on cash or its money market accounts.

e. Promises to Give

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as support and revenues in the period received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

f. Investments

The Center records investments in marketable securities with readily determinable fair values at their fair values in the Statement of Financial Position. Unrealized gains and losses on investments are included in the change in net assets in the accompanying Statement of Activities.

At June 30, 2007, investments consisted of \$861,267 in certificates of deposit and \$8,000 in marketable securities.



THE ROCHELLE CENTER  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (continued)

g. Accounts Receivable

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding accounts. The Center has reserved \$5,869 in potential bad debts.

At June 30, 2007, accounts receivable consisted of the following:

	<u>Amount</u>
Workshop contracts	\$ 62,681
State of Tennessee - DMH/MR	7,722
Private pay	1,552
Residential	25,792
Special events	<u>52,595</u>
	150,342
Less: allowance for doubtful accounts	<u>( 5,869)</u>
	<u>\$ 144,473</u>

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. The Center's capitalization policy is to capitalize any expenditures 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, the Center reports expirations of donor restrictions when the donated or acquired assets are placed in service and also reclassifies the temporarily restricted net assets to unrestricted net assets at that time.

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. Accrued Expenses

Accrued expenses include accrued wages, leave, and any other liability that is accrued at year end. At June 30, 2007, accrued expenses consisted of the following:

Accrued vacation buy out	\$ 18,223
Accrued wages payable	<u>15,857</u>
	<u>\$ 34,080</u>

THE ROCHELLE CENTER  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (continued)

j. Income Tax Status

The Center is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and the Center is 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.

k. Functional Allocation of Expenses

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

l. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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 value of long-term debt approximates the carrying amount and is estimated based on current rates offered to the Center.

n. Donated Services

The Organization receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. No amounts have been recognized in the Statements of Activities because the criteria for recognition under SFAS No. 116 have not been satisfied.

NOTE 2 - Concentration of Credit Risk

At June 30, 2007, one customer owed the Center approximately 56% of the total accounts receivable. At June 30, 2007, four vendors were due approximately 54% of the total accounts payable.

NOTE 3 - Net Assets

At June 30, 2007, the Board of Directors has designated \$479,861 in designated net assets to be used for capital improvements.

Also at June 30, 2007, the Center had \$396,198 held in assets whose use was restricted by the donors as follows:

THDA grant	\$ 357,467
Memorials	5,500
Bar code equipment	11,231
Sensory garden	<u>22,000</u>
Total temporarily restricted net assets	<u>\$ 396,198</u>

THE ROCHELLE CENTER  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 4 - Long-term Debt

Long-term debt at June 30, 2007, consists of the following:

First mortgage note payable to U.S. Bank with a maturity of June 2, 2009. Monthly payments of \$1,162 are required based on 25 years amortization with interest at 4.94%. The note is collateralized by real and personal property located at 1132 Graycroft Avenue, Madison, Tennessee. \$ 187,314

First mortgage note payable to U.S. Bank with a maturity of June 2, 2009. 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. 52,422

First mortgage note payable to Regions Bank with a maturity of July 15, 2009. Monthly payments of \$464 are required at prime less 1% (7% at June 30, 2007.) The note is collateralized by real and personal property located at 7244 Old Harding Pike, Nashville, Tennessee. 90,390

First mortgage note payable to Regions Bank with a maturity of May 26, 2010. Monthly payments of \$530 are required at prime less 1% (7% at June 30, 2007.) The note is collateralized by real and personal property located at 209 Wellington Drive, Nashville, Tennessee. 87,746

First mortgage note payable to Regions Bank with a maturity of March 15, 2011. Monthly payments of \$540 are required at prime less 1% (7% at June 30, 2007.) The note is collateralized by real and personal property located at 4412 Gra Mar, Nashville, Tennessee. 79,142

First mortgage note payable to Sara Wood with a maturity of November 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 and personal property located at 4536 Andrew Jackson Parkway, Nashville, Tennessee 99,141

596,155  
Less: current maturities (10,678)  
\$ 585,477

THE ROCHELLE CENTER  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 4 - Long-term Debt (continued)

The following is a schedule of future maturities:

<u>Year Ending</u> <u>June 30,</u>	
2008	\$ 10,678
2009	11,284
2010	11,925
2011	12,604
2012	104,005
Thereafter	<u>445,659</u>
	596,155
Less: current installments	( <u>10,678</u> )
	<u>\$ 585,477</u>

NOTE 5 - Lease Agreement

The Center leases various office equipment and real property under lease arrangements classified as operating leases. The leases are payable in monthly payments totaling \$3,673 and expire at various dates through June 2010. Total rent expense for the year ended June 30, 2007, was \$45,135.

Future minimum lease payments are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2008	\$ 41,124
2009	8,674
2010	<u>8,121</u>
Total	<u>\$ 57,918</u>

NOTE 6 - Commitments and Contingencies

The Center receives a substantial amount of its support and revenues from governmental agencies. A significant reduction in the level of this support may reflect on the Center's future programs and activities. In addition, the funding received from the governmental agencies is subject to audit and retroactive adjustment by the governmental agencies.

From time to time, the Center may be named as a defendant in lawsuits filed by a former employee or its clients. At June 30, 2007, the Company does not believe that any claims have merit and intends to vigorously defend its position for all outstanding claims.

NOTE 7 - Prior Period Adjustment

A prior period adjustment has been recorded in the amount of \$25,069 to adjust the beginning balance of accounts receivable. This adjustment decreased net assets at the beginning of the fiscal year by \$25,069.