THE SPEECH AND HEARING CENTER
CHATTANOOGA, TENNESSEE

FINANCIAL STATEMENTS

December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Speech & Hearing Center
Chattanooga, Tennessee

We have audited the accompanying statement of financial position of The Speech & Hearing Center, (a nonprofit organization) (the "Center") as of December 31, 2011 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Center'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 Speech & Hearing Center, as of December 31, 2011, 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.

Mann & Miller, P.C.

April 10, 2012

THE SPEECH AND HEARING CENTER

STATEMENT OF FINANCIAL POSITION

December 31, 2011

ASSETS

CURRENT ASSETS		
Cash	$	418,519
Investments		285,966
Accounts receivable:		
Program service fees, less allowance for uncollectible accounts of $10,700		73,348
Total Current Assets		**777,833**
PROPERTY AND EQUIPMENT		
Equipment		563,183
Vehicles		29,042
Mobile testing facility		72,290
Modular building		66,658
		731,173
Less accumulated depreciation	(	673,487)
Net Property and Equipment		**57,686**
Total Assets	**$**	**835,519**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$	16,833
Current maturities of note payable		968
Liability for pension benefits		46,834
Total Current Liabilities		**64,635**
LONG-TERM LIABILITIES (current portion above)		
Liability for pension benefits		813,328
Total Long-term Liabilities		**813,328**
Total Liabilities		**877,963**
NET ASSETS		
Unrestricted	(	42,444)
Total Liabilities and Net Assets	**$**	**835,519**

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

THE SPEECH AND HEARING CENTER

STATEMENT OF ACTIVITIES

For the year ended December 31, 2011

REVENUES	
Contributions	$ 120,123
Allocated by United Way of Greater Chattanooga, Inc.	268,785
Patient services, net of charity services totaling $833,200	838,508
Hearing aid sales, net of returns of $11,761 and cost of sales of $204,407	245,037
Investment income	8,911
Special events	15,362
Total Revenues	**1,496,726**
EXPENSES	
Program services	1,710,700
Management and general	214,398
Total Expenses	**1,925,098**
Pension-related changes other than net periodic pension cost	(220,982)
Change in Net Assets	**(649,354)**
Net assets, beginning of year	606,910
Net Assets, End of Year	**$(42,444)**

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

THE SPEECH AND HEARING CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2011

	Program Services	
	Audiology	**Speech Pathology**
Advertising	$ 9,310	$ 2,787
Bad debts	-	-
Employee benefits	168,046	230,609
Communications	5,880	4,553
Continuing education	-	678
Depreciation	3,989	3,385
Insurance	4,574	5,982
Maintenance	1,141	546
Miscellaneous	-	-
Payroll taxes	19,466	32,675
Printing and publications	40	38
Professional dues	752	1,608
Professional services and fees	11,486	14,913
Postage and delivery	1,319	924
Rent	20,790	22,050
Salaries	203,796	356,722
Supplies	5,375	7,910
Travel and lodging	1,509	5,477
Utilities	4,127	4,573
Vehicle expenses	-	-
Total Expenses	**$ 461,600**	**$ 695,430**

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

The Speech and Hearing Center

Statement of Functional Expenses - Continued

For the year ended December 31, 2011

	Program Services	
	Achieve	**Industry**
Advertising	$ 1,354	$ 1,924
Bad debts	-	-
Employee benefits	72,749	49,925
Communications	2,192	3,434
Continuing education	499	-
Depreciation	4,033	16,989
Insurance	2,334	1,004
Maintenance	1,923	2,907
Miscellaneous	-	-
Payroll taxes	6,257	1,390
Printing and publications	18	2
Professional dues	-	510
Professional services and fees	12,524	2,332
Postage and delivery	499	2,258
Rent	8,820	5,670
Salaries	135,773	82,150
Supplies	5,634	1,613
Travel and lodging	215	-
Utilities	3,084	1,004
Vehicle expenses	-	13,062
Total Expenses	**$ 257,908**	**$ 186,174**

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

The Speech and Hearing Center

Statement of Functional Expenses - Continued

For the year ended December 31, 2011

	Program Services	
	Marion County	**Program Services Total**
Advertising	$ -	$ 15,375
Bad debts	-	-
Employee benefits	24,962	546,291
Communications	3,696	19,755
Continuing education	303	1,480
Depreciation	725	29,121
Insurance	82	13,976
Maintenance	1,142	7,659
Miscellaneous	-	-
Payroll taxes	695	60,483
Printing and publications	1,293	1,391
Professional dues	1,180	4,050
Professional services and fees	9,138	50,393
Postage and delivery	109	5,109
Rent	6,950	64,280
Salaries	57,155	835,596
Supplies	1,583	22,115
Travel and lodging	575	7,776
Utilities	-	12,788
Vehicle expenses	-	13,062
Total Expenses	**$ 109,588**	**$ 1,710,700**

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

THE SPEECH AND HEARING CENTER

STATEMENT OF FUNCTIONAL EXPENSES - CONTINUED

For the year ended December 31, 2011

	Support Services General and Administrative	Program and Support Services
Advertising	$ 1,483	$ 16,858
Bad debts	801	801
Employee benefits	58,652	604,943
Communications	6,455	26,210
Continuing education	398	1,878
Depreciation	1,088	30,209
Insurance	3,782	17,758
Maintenance	360	8,019
Miscellaneous	6,761	6,761
Payroll taxes	9,074	69,557
Printing and publications	55	1,446
Professional dues	2,488	6,538
Professional services and fees	3,485	53,878
Postage and delivery	761	5,870
Rent	5,670	69,950
Salaries	101,090	936,686
Supplies	1,562	23,677
Travel and lodging	8,283	16,059
Utilities	2,150	14,938
Vehicle expenses	-	13,062
Total Expenses	**$ 214,398**	**$ 1,925,098**

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

THE SPEECH AND HEARING CENTER

STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$(649,354)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	30,209
Bad debts	801
Changes in assets and liabilities:	
Accounts receivable	24,728
Accounts payable	730
Liability for pension benefits	567,865
Net Cash Used by Operating Activities	**(25,021)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income reinvested in certificates of deposit	(6,306)
Purchase of property and equipment	(4,252)
Net Cash Used by Investing Activities	**(10,558)**
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on long-term debt	(5,808)
Net Decrease in Cash	**(41,387)**
Cash at beginning of year	459,906
Cash at End of Year	**$ 418,519**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Amount paid for:	
Interest	**$ -**
Taxes	**$ -**

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

NOTE 1. ORGANIZATION

The Speech & Hearing Center (the "Center") is a nonprofit organization that provides comprehensive diagnostic and therapeutic services to persons of all ages who may have speech, language, voice or hearing problems. These services are provided primarily in the ten Southeastern counties of Tennessee and three Northwestern counties of Georgia.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Revenues and expenses are recorded on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized in the period incurred. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support in the accompanying statement of activities.

Cash

For purposes of the statement of cash flows, the Center considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

Investments

Investments, consisting of certificates of deposits, are reported at cost which approximates fair value.

Property, Equipment, and Depreciation

Property and equipment are recorded at cost for purchased assets and at fair market value at the date of the gift for donated assets. Depreciation is provided on the straight-line method based upon the estimated useful lives of the respective assets. The estimated lives range from 5 years for equipment to 10 years for a modular home. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. Expenditures for property and equipment over $2,500 are capitalized. When items of property or equipment are sold or retired the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is included in income.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Net Assets

The accompanying financial statements are presented in accordance with current professional standards for reporting as applicable to nonprofit organizations. Under current professional standards, a nonprofit organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The ultimate classification of the Center's net assets into the three classes of net assets is based upon the existence or absence of donor-imposed restrictions as follows:

Unrestricted Net Assets

The part of the Center's net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets

The part of the Center's net assets resulting (a) from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Center pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Center pursuant to those stipulations.

Permanently Restricted Net Assets

The part of the Center's net assets resulting (a) from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise be removed by actions of the Center, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations.

Contributed Services

The Center receives a significant amount of contributed services from unpaid volunteers who assist in the various programs. No amounts have been recognized in the statement of activities because criteria for recognition under current applicable accounting standards have not been satisfied.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Income Taxes

The Center is a recognized nonprofit organization pursuant to Internal Revenue Code Section 501(c)(3). As such, the organization is not subject to income taxes. In addition, the Center qualifies for the charitable contribution deduction under Section 170 (b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Center recognizes a tax position 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% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

As of December 31, 2011, the Center has accrued no interest and penalties related to uncertain tax positions. It is the Center's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Center's Form 990, Return of Organization Exempt From Income Tax, for the years ended December 31, 2010, 2009 and 2008 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Functional Expenses

The cost of providing the various programs and activities 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.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Compensated Absences

Employees of the Center are entitled to paid vacation and sick days, depending on length of service and other factors. Management has determined the amount is immaterial to the Center's financial position and accordingly, the Center's policy is to recognize the costs of compensated absences when actually paid to employees.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Advertising

The Center expenses advertising and promotional costs as incurred. Advertising expense for the year ended December 31, 2011 totaled $16,858.

Subsequent Events

Subsequent events have been evaluated through April 10, 2012, which is the date the financial statements were available to be issued.

NOTE 3. FAIR VALUE MEASUREMENTS

Current professional standards establish a framework of measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under current professional standards are described below:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.

Level 2

Inputs to valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 3. FAIR VALUE MEASUREMENTS-CONTINUED

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

Certificate of Deposit: Valued at cost which approximates fair value.

Liability for pension benefits: Calculated as the difference in the projected benefit obligation and the fair value of assets held by the defined benefit plan sponsored by the Center.

The following table sets forth by level, within the fair value hierarchy, the Center's assets and liabilities measured at fair value on a recurring basis as of December 31, 2011:

Assets and Liabilities at Fair Value as of December 31, 2011

	Level 1	Level 2	Level 3	Total
Certificate of deposit	$ -	$ 285,966	$ -	$ 285,966
Liability for pension benefits	$ -	$ -	$ 860,162	$ 860,162

	Level 3 Liabilities Liability for pension benefits
Balance, beginning of year	$ 292,297
Net periodic benefit cost	426,052
Pension-related changes other than net periodic pension cost	220,982
Employer contributions	(79,169)
Balance, end of year	**$ 860,162**

NOTE 4. ACCOUNTS RECEIVABLE

The Center has receivables from individuals resulting from sales of hearing aids as well as from performing speech and hearing services. The Center allows for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivables.

Amounts receivable in less than one year at December 31, 2011, consist of the following:

Program service fees, less allowance of uncollectible accounts of $10,700	$ 73,348

NOTE 5. NOTE PAYABLE

Note payable to GMAC in sixty monthly installments of $484, non-interest bearing through February, 2012. Collateralized by vehicle.	$ 968

Future years' debt maturities are as follows:

Year Ending December 31,	
2012	$ 968
Less current maturities	(968)
Note Payable, Net of Current Maturities	**$ -**

NOTE 6. LEASE

The Center has exercised a three year lease renewal option for office space in Chattanooga, Tennessee. The lease payments are based on the increase in the consumer price index and payment of operating expenses in excess of a certain amount. The scheduled payments, resetting annually on July 1, over the next three years are $5,381, $5,513 and $5,644, respectively. The Center also leases an office in Marion County on a month to month basis at $600 per month. Future minimum payments under the lease terms are as follows:

Future years' minimum lease payment are as follows:

Year Ending December 31,		
2012	$	63,788
2013	$	65,363
2014	$	66,938
2015	$	33,863

NOTE 7. PENSION PLAN

The Center maintains a noncontributory defined benefit pension plan ("the plan") which covers substantially all employees. The plan provides benefits based on years of service and final average salary, and provides reduced benefits for early retirement.

The investment policy of the Center states that investments shall be prudently selected and properly diversified so as to minimize the risk of loss of principal, that the plan assets shall be for exclusive purpose of providing benefits for the participants and their beneficiaries, and the plan will maintain sufficient liquidity to meet scheduled benefit payments while striving to maximize investment growth over the long-term. The long-term asset mix goal of the the plan shall be 50% fixed income investments and 50% common stock investments. Target allocations have been set at 50% fixed income and 50% common stock investment. The policy calls for an allowable range for common stock or fixed income investments of 30%-70%.

NOTE 7. PENSION PLAN - CONTINUED

The following information relates to net periodic pension expense and funded status of the plan.

Net periodic pension expense:		
Service cost	$	120,166
Interest cost on projected benefit obligation		172,238
Expected return on assets	(	211,313)
Recognized actuarial losses		24,186
Amount of gain or loss recognized due to settlement		321,936
Prior service cost recognized	(	1,161)
	$	**426,052**
Funded status of plan:		
Projected benefit obligation	$	2,621,344
Plan assets at fair value		1,761,182
Liability for pension benefits	**$**	**860,162**

As of December 31, 2011 the plan's accumulated benefit obligation is $1,620,505.

Change in plan assets for the year ended December 31, 2011 is as follows:.

Fair value of plan assets at January 1, 2011	$	2,699,395
Actual return on plan assets		53,504
Employer contributions		79,169
Annuities purchased or benefits paid (including plan expenses)	(	1,070,886)
Fair value of plan assets at December 31, 2011	**$**	**1,761,182**

The projected benefit obligation was determined using an assumed discount rate of 4.30% and an assumed rate of compensation increase of 5%. The expected long-term rate of return was 7.75%.

The expected long-term rate of return on plan assets assumption of 7.75% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 - Selection Economic Assumptions for Measuring Pension Obligations. Based on the Center's investment policy for the plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30 year period rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at a best estimate range of 6.57% - 8.95%. A rate near the midpoint of the best estimate range of 7.75% was selected.

The current liability for pension benefits of $46,834, represents approximately 5% of salaries to be contributed to the Plan by the employer during the year ended December 31, 2012.

NOTE 7. PENSION PLAN - CONTINUED

A reconciliation of the items not yet reflected in the net periodic benefit cost is as follows:

	Jan. 1, 2011	Reclassified as Net Periodic Benefit Cost	Amounts Arising During Period	Dec. 31, 2011
Transition obligation or asset	$ -	$ -	$ -	$ -
Net prior service cost or credit	(8,830)	(1,161)	-	(7,669)
Net (gain) or loss	568,367	$ 24,186	$(244,007)	788,188
Less amount recognized in prior period	$ 559,537			(559,537)
Pension-related changes other than net periodic pension cost				**$ 220,982**

The estimated net gain (loss) and prior service cost that will be amortized from changes in unrestricted net assets into net periodic benefit cost during the subsequent year ending December 31, 2012 are $(44,581) and $1,161, respectively. In addition, no plan assets are expected to be returned to the employer during that year.

The following benefit payments which reflect expected future service, as appropriate, are expected to be paid to retirees:

Year Ending December 31,	
2012	$ 33,000
2013	$ 37,000
2014	$ 39,000
2015	$ 236,000
2016	$ 252,000
2017-2021	$ 463,000

Plan assets as of December 31, 2011 by category are as follows:

	Total	Percentage
Equity	$ 895,384	50.80
Fixed income	636,683	36.20
General account	229,115	13.00
Total	**$ 1,761,182**	**100.00**

NOTE 7. PENSION PLAN - CONTINUED

The plan consists of investments held in mutual funds and plan assets are valued at the net asset value of shares held by the plan at year end.

The fair values of the Center's Plan assets at December 31, 2011, by category are as follows (see note 3 for description of fair value levels):

Plan Assets at Fair Value as of December 31, 2011

	Level 1	Level 2	Level 3	Total
Equity	$ 895,384	$ -	$ -	$ 895,384
Fixed income	636,683	-	-	636,683
General account	229,115	-	-	229,115
Total	**$ 1,761,182**	**$ -**	**$ -**	**$ 1,761,182**

The Center also has a Thrift Savings Plan. The Center is required to match two percent of eligible employees contributions. Expense of the Thrift Savings Plan for 2011 was $17,003.

NOTE 8. CONTINGENCIES, RISKS AND UNCERTAINTIES

The Center grants credit to customers in the local geographical area, therefore their ability to collect the amounts due from these customers is affected by the economic fluctuations within this geographical area.

The Center maintains its cash and investment accounts in three financial institutions. At times these balances exceed federally insured amounts.

The Center is dependent on grants and contributions from certain agencies and private donors to fund the services it provides to patients. If these funds were reduced, there would be a reduction in the services provided.