B44454

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

November 13, 2014

Board of Directors
Arc Rehab Services, Inc.
d/b/a The Arc of Greater Boone County
900 West Main Street
Lebanon, IN 46052

We have reviewed the audit report prepared by Gauthier & Kimmerling, LLC, for the period July 1, 2010 to June 30, 2011. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Arc Rehab Services, Inc. d/b/a The Arc of Greater Boone County, as of June 30, 2011, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

ARC REHAB SERVICES, INC.
d/b/a THE ARC OF
GREATER BOONE COUNTY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

JUNE 30, 2011

ARC REHAB SERVICES, INC.
d/b/a THE ARC OF GREATER BOONE COUNTY

TABLE OF CONTENTS

Gauthier & Kimmerling, LLC
accountants & advisors
7340 Shadeland Station • Suite 100 • Indianapolis, IN 46256 • (317) 572-1130

Independent Auditors' Report

To the Board of Directors
Arc Rehab Services, Inc.
d/b/a The Arc of Greater Boone County
Lebanon, Indiana

We have audited the accompanying statement of financial position of Arc Rehab Services, Inc. d/b/a The Arc of Greater Boone County (Arc) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Arc'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 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 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 Arc as of June 30, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2011 on our consideration of Arc'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 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 our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Gauthier & Kimmerling LLC

October 13, 2011

ARC REHAB SERVICES, INC.
d/b/a THE ARC OF GREATER BOONE COUNTY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Total
ASSETS			
Cash and cash equivalents	$ 504,968	$ 130,000	$ 634,968
Certificates of deposit	263,068	-	263,068
Investments (Note 4)	64,611	-	64,611
Accounts receivable	122,982	-	122,982
Prepaid expenses	33,006	-	33,006
Property and equipment, less accumulated depreciation of $1,250,698 (Note 5)	2,013,695	-	2,013,695
Total Assets	$ 3,002,330	$ 130,000	$ 3,132,330
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable	$ 19,093	$ -	$ 19,093
Salaries payable	35,230	-	35,230
Total Liabilities	54,323	-	54,323
Net Assets:			
Unrestricted:			
Undesignated	2,318,007	-	2,318,007
Board designated (Note 7):			
Technology repair and maintenance fund	30,000	-	30,000
Building repair and maintenance fund	100,000	-	100,000
Operating reserve	500,000	-	500,000
Temporarily restricted (Note 7)	-	130,000	130,000
Total Net Assets	2,948,007	130,000	3,078,007
Total Liabilities and Net Assets	$ 3,002,330	$ 130,000	$ 3,132,330

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

ARC REHAB SERVICES, INC.
d/b/a THE ARC OF GREATER BOONE COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUE			
State Developmental Disabilities Grant	$ 63,139	$ -	$ 63,139
Vocational Rehabilitation contract	78,623	-	78,623
Group home contracts	736,305	-	736,305
WIC and Healthy Families	137,832	-	137,832
Medicaid Waiver	150,345	-	150,345
United Way support (Note 8)	21,837	-	21,837
Contributions	20,848	9,102	29,950
County appropriation	-	130,000	130,000
Other grants	2,397	-	2,397
Work center revenue	28,785	-	28,785
Rental income	14,192	-	14,192
Realized and unrealized gain (loss)	7,863	-	7,863
Investment income	11,062	-	11,062
Miscellaneous	14,108	-	14,108
Total Revenue	1,287,336	139,102	1,426,438
Net assets released from restrictions	255,102	(255,102)	-
Total Revenue and Support	1,542,438	(116,000)	1,426,438
EXPENSES			
Program Services:			
Sheltered employment	336,894	-	336,894
Personal and community services	388,127	-	388,127
Job Connection	132,970	-	132,970
Children/family services	151,202	-	151,202
Total Program Services	1,009,193	-	1,009,193
Supporting Services:			
Administration	239,060	-	239,060
Fundraising	26,561	-	26,561
Total Expenses	1,274,814	-	1,274,814
Increase (decrease) in net assets	267,624	(116,000)	151,624
Net assets - beginning of year	2,680,383	246,000	2,926,383
Net assets - end of year	$ 2,948,007	$ 130,000	$ 3,078,007

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

ARC REHAB SERVICES, INC.
d/b/a THE ARC OF GREATER BOONE COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	Sheltered Employment	Personal & Community Services	Job Connection	Children/ Family Services	Program Services Total	General and Administrative	Fundraising	Supporting Services Total	Total
Personnel services	$ 211,763	$ 269,836	$ 107,831	$ 115,979	$ 705,409	$ 114,447	$ 12,716	$ 127,163	$ 832,572
Contract services	2,997	364	40	659	4,060	99	11	110	4,170
Supplies	22,614	14,313	1,023	6,036	43,986	2,586	287	2,873	46,859
Staff development	83	193	55	35	366	913	101	1,014	1,380
Postage / shipping	858	651	234	1,872	3,615	-	-	-	3,615
Occupancy	30,344	33,445	3,505	10,571	77,865	44,283	4,920	49,203	127,068
Equipment operation	10,472	12,121	4,068	10,127	36,788	8,538	948	9,486	46,274
Professional fees	14,607	13,401	4,894	166	33,068	19,586	2,176	21,762	54,830
Dues	1,198	564	203	-	1,965	6,477	720	7,197	9,162
Depreciation	24,258	28,116	3,335	-	55,709	36,067	4,008	40,075	95,784
Other	5,016	5,705	3,249	4,958	18,928	6,064	674	6,738	25,666
Transportation / travel	12,684	9,418	4,533	799	27,434	-	-	-	27,434
Total	$ 336,894	$ 388,127	$ 132,970	$ 151,202	$1,009,193	$ 239,060	$ 26,561	$ 265,621	$ 1,274,814

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

ARC REHAB SERVICES, INC.
d/b/a THE ARC OF GREATER BOONE COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 151,624
Adjustments to reconcile change in net assets	
Realized and unrealized gain on investments	(7,863)
Depreciation	95,784
Decrease in accounts receivable	85,535
Increase in prepaid expenses	(23,966)
Increase in accounts payable	8,750
Increase in salaries payable	2,253
Decrease in accrued expenses	(22,210)
Net Cash Provided by (Used in) Operations	289,907
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(505)
Purchase of property and equipment	(141,011)
Purchase of certificates of deposit	(6,470)
Net Cash Provided by (Used in) Investing Activities	(147,986)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on notes payable	(213,403)
Net increase in cash	(71,482)
Cash and cash equivalents - beginning of year	706,450
Cash and cash equivalents - end of year	$ 634,968
Interest paid during year	$ 3,351

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

ARC REHAB SERVICES, INC.
d/b/a THE ARC OF GREATER BOONE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. NATURE OF THE ORGANIZATION

Arc Rehab Services, Inc. d/b/a The Arc of Greater Boone County (Arc) was established on August 21, 1970, to provide program services for individuals with developmental disabilities. Arc's activities include:

Work Programs:
- Operation of a sheltered work program
- Supported employment services

Personal and Community Services:
- Personal and social adjustment services for people with severe disabilities

Children/Family Services:
- Administration of the Women, Infants & Children (WIC) Program for Boone County

Substantial funding is received from the State of Indiana through its Social Services Block Grant and Vocational Rehabilitation Services. Substantial funding is also received through the Medicaid Waiver and contracts with several group homes to provide day services for their clients.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – Arc maintains its accounts on the accrual basis.

Investments – Arc records its investments at current market value. Unrealized gains and losses are reported in the statement of activities.

For purposes of the statement of cash flows, investments with a maturity of three months or less are considered to be cash equivalents.

Accounts Receivable – Arc utilizes the direct write-off method of accounting for bad debts. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Advertising Costs – Are expensed as incurred.

Rental Income – Rental income is recognized as rental payments become due. Rental payments received in advance are deferred until earned. All leases are operating leases.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Property and Equipment are stated at cost or, for donations, at fair market value at the date of donation, and include expenditures for additions and betterments, which substantially increase the useful lives of existing fixed assets. Purchases over $500 are capitalized.

Assets and investments in real estate are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. There was no impairment loss recognized in 2011.

Depreciation is computed using the straight-line method over estimated useful lives of 5 to 39 years.

Grant Revenues – Grants are recognized as temporarily restricted revenue when they are awarded with donor stipulations that limit the use of the monies. When donor restrictions are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Grants whose restrictions are met in the same period as they are recognized are recorded as unrestricted revenue.

Fee-for-Service Revenues – Reimbursements received pursuant to fee-for-service contracts are recorded as unrestricted revenue when billed. The Social Service Block Grant is structured as a fee-for-service contract.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts. Actual results could differ from these estimates.

Tax Status – Arc has been granted exemption from taxation as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code; therefore, no expense or liability has been recognized for income taxes in the accompanying financial statements. Management believes Arc has adequately addressed all relevant tax positions and that there are no material unrecorded tax liabilities. However, returns for fiscal years 2008, 2009 and 2010 remain open for IRS review.

3. FINANCIAL INSTRUMENTS

Arc maintains deposits in five banks, one of which had deposits that exceeded federally insured limits by approximately $16,000 at June 30, 2011.

Arc has not experienced any losses in its accounts and management believes that it is not exposed to any significant credit risk on these accounts.

4. INVESTMENTS

At June 30, 2011, Arc's investments included money market and mutual funds with a market value of $64,611, and a cost of $75,300, resulting in a cumulative unrealized loss of $12,151. For the year ended June 30, 2011, Arc sustained unrealized gains of $7,677 and realized gains of $186. These amounts are included in the statement of activities.

Investment income includes interest from its certificates of deposits and bank accounts totaling 9,689 and dividends of $1,373.

5. PROPERTY AND EQUIPMENT

The following is a summary of the change in Arc's property and equipment during the year:

	Balance 7/1/10	Additions	Disposals	Balance 6/30/11	Accumulated Depreciation
Land	$ 308,105	$ 68,490	$ -	$ 376,595	$ -
Land improvements	163,373	13,696	-	177,069	138,597
Buildings	2,361,117	36,188	-	2,397,305	837,566
Equipment	255,591	22,637	-	278,228	239,857
Vehicles	35,196	-	-	35,196	34,678
Total	$ 3,123,382	$ 141,011	$ -	$ 3,264,393	$ 1,250,698

Depreciation expense for the year totaled $95,784.

6. NOTES PAYABLE

Arc executed an $84,000 mortgage note payable on December 10, 1999, which was collateralized by the new office building. The mortgage called for 180 monthly payments of $779 including interest at the rate of 7.5% starting on January 10, 2000. On March 11, 2004, a line of credit with the same bank in the amount of $244,000 was rolled into the above mortgage. The mortgage had new terms calling for 180 monthly payments of $2,665 including interest at the rate of 6.125% starting on April 11, 2004. The balance was repaid in 2011.

7. NET ASSETS

At June 30, 2011, temporarily restricted net assets include the following:

County appropriation	$ 130,000
Total	$ 130,000

United Way of Central Indiana has specified that Arc maintain a $125,000 debt service reserve until the mortgage on the office building is repaid. The mortgage was repaid in fiscal 2011 and the reserve was released and returned to unrestricted net assets.

The County appropriation is to fund operations for the fiscal year beginning July 1, 2011.

At June 30, 2011, the Board designated net assets for repair and maintenance reserves as well as for an operating reserve to sustain programming in the event of revenue shortfalls. Board designated reserves can be modified by action of the Board.

8. UNITED WAY SUPPORT

In addition to the allocation from the Community Fund, $21,837, Arc received a grant of $2,105 through the United Way Facilities Maintenance Fund.

Arc also received donor choice contributions from the United Way totaling $9,993 during the year ended June 30, 2011.

9. RETIREMENT PLAN

In a prior year, Arc implemented a 403(b) retirement plan as a benefit to its full-time employees. Employees are eligible for participation in the plan upon completion of 90 days of service. The plan did not require employer contributions and none were made during the year.

In April 2009, the 403(b) plan was replaced by a SIMPLE IRA plan. Arc matches contributions of eligible employees who were employed two years on January 1st of the plan year, up to a maximum of 3% of eligible compensation. During fiscal year 2011, Arc contributed $11,125 to employee accounts.

10. WIC PROGRAM

WIC Program expenses are included in the Child/family services category in the statement of functional expenses as follows:

	Client Services	General and Administrative	Total
Personnel services	$ 97,253	$ -	$ 97,253
Contract services	304	-	304
Supplies	5,775	-	5,775
Postage/shipping	1,313	-	1,313
Occupancy	8,243	-	8,243
Equipment	8,786	-	8,786
Other	4,958	-	4,958
Transportation/travel	419	-	419
Administration	-	7,522	7,522
Total	$ 127,051	$ 7,522	$ 134,573

The allocation of administrative costs to the WIC Program is consistent with allocations to other programs before applying the WIC-mandated limit for such costs. Revenue from the WIC program totaled $132,542 for the year.

11. CONCENTRATIONS

Arc's operations are concentrated in providing services to the group home market. The group homes operate in a heavily regulated environment and are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies. Mandated administrative rule changes or reductions in funding could impact the group home's ability to pay for Arc's services. Arc's revenue from group home services was 52% of total revenue in fiscal 2011.

12. FAIR VALUE MEASUREMENT

In accordance with Accounting Standards Codification (ASC) 820, Arc measures its assets and liabilities at fair value using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires that entities maximize the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The three levels of inputs used are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Quoted prices for similar assets or liabilities in active markets
- Level 3 – Unobservable inputs for the asset or liability based on the best available information

The following table sets forth, by level, within the fair value hierarchy, Arc's investments at fair value as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Corporate Bonds	$ 29,661	$ -	$ -	$ 29,661
Equities	33,489	-	-	33,489
Money Market Fund	1,461	-	-	1,461
Total assets at fair value	$ 64,611	$ -	$ -	$ 64,611

The fair value of short-term financial instruments, including cash equivalents, certificates of deposit, accounts receivable, accounts payable and salaries payable approximate the instruments.

The fair value of long-term assets, including property and equipment, approximates the carrying value in the accompanying financial statements based on evaluation of impairment (see Note 2).

All methods of assessing fair value result in a general approximation of value and such value may never be realized.

13. SUBSEQUENT EVENTS

Management has evaluated sub sequent events through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.