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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, 2011 to June 30, 2012. 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, 2012, 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, 2012

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

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Gauthier & Kimmerling, LLC
accountants & advisors

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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, 2012, 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, 2012, 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 15, 2012 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 15, 2012

ARC REHAB SERVICES, INC.
d/b/a THE ARC OF GREATER BOONE COUNTY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 753,772	\$ 135,532	\$ 889,304
Certificates of deposit	137,130	-	137,130
Investments (Note 4)	64,989	-	64,989
Accounts receivable	198,288	-	198,288
Prepaid expenses	3,449	-	3,449
Property and equipment, less accumulated depreciation of \$1,340,683 (Note 5)	<u>1,950,628</u>	<u>-</u>	<u>1,950,628</u>
Total Assets	<u>\$ 3,108,256</u>	<u>\$ 135,532</u>	<u>\$ 3,243,788</u>
<u>LIABILITIES AND NET ASSETS</u>			
Liabilities:			
Accounts payable	\$ 16,008	\$ -	\$ 16,008
Deferred revenue	2,462	-	2,462
Salaries payable	<u>17,980</u>	<u>-</u>	<u>17,980</u>
Total Liabilities	<u>36,450</u>	<u>-</u>	<u>36,450</u>
Net Assets:			
Unrestricted:			
Undesignated	2,441,806	-	2,441,806
Board designated (Note 6):			
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 6)	<u>-</u>	<u>135,532</u>	<u>135,532</u>
Total Net Assets	<u>3,071,806</u>	<u>135,532</u>	<u>3,207,338</u>
Total Liabilities and Net Assets	<u>\$ 3,108,256</u>	<u>\$ 135,532</u>	<u>\$ 3,243,788</u>

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, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUE			
State Developmental Disabilities	\$ 59,079	\$ -	\$ 59,079
Vocational Rehabilitation contract	67,966	-	67,966
Group home contracts	739,245	-	739,245
WIC	151,156	-	151,156
Medicaid Waiver	136,437	-	136,437
United Way support (Note 7)	20,758	-	20,758
Contributions	21,489	-	21,489
County appropriation	-	123,500	123,500
Other grants	9,912	13,350	23,262
Work center revenue	41,460	-	41,460
Rental income	16,950	-	16,950
Realized loss	(288)	-	(288)
Investment income	8,759	-	8,759
Miscellaneous	17,421	-	17,421
 Total Revenue	 1,290,344	 136,850	 1,427,194
Net assets released from restrictions	131,318	(131,318)	-
Total Revenue and Support	1,421,662	5,532	1,427,194
EXPENSES			
<i>Program Services:</i>			
Sheltered employment	303,322	-	303,322
Personal and community services	396,124	-	396,124
Job Connection	123,429	-	123,429
Children/family services	156,955	-	156,955
Total Program Services	979,830	-	979,830
<i>Supporting Services:</i>			
Administration	283,230	-	283,230
Fundraising	34,803	-	34,803
Total Expenses	1,297,864	-	1,297,864
Increase (decrease) in net assets	123,799	5,532	129,331
Net assets - beginning of year	2,948,007	130,000	3,078,007
Net assets - end of year	\$ 3,071,806	\$ 135,532	\$ 3,207,338

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, 2012

	Sheltered Employment	Personal & Community Services	Job Connection	Children/ Family Services	Program Services Total	General and Administrative	Fundraising	Supporting Services Total	Total
Personnel services	\$ 194,726	\$ 275,028	\$ 99,768	\$ 114,329	\$ 683,851	\$ 169,786	\$ 22,198	\$ 191,984	\$ 875,835
Contract services	3,566	73	21	4,973	8,633	409	46	455	9,088
Supplies	6,262	8,148	1,135	24,438	39,983	6,167	685	6,852	46,835
Staff development	324	761	209	-	1,294	1,639	182	1,821	3,115
Postage /shipping	786	786	258	1,014	2,844	-	-	-	2,844
Occupancy	24,362	33,764	3,488	6,296	67,910	35,355	3,928	39,283	107,193
Equipment operation	13,228	19,291	6,313	559	39,391	6,350	706	7,056	46,447
Professional fees	7,729	9,131	2,683	-	19,543	19,149	2,128	21,277	40,820
Dues	89	862	39	-	990	9,898	1,100	10,998	11,988
Depreciation	22,927	26,312	2,088	4,185	55,512	31,027	3,447	34,474	89,986
Other	13,286	9,371	1,349	412	24,418	3,321	369	3,690	28,108
Transportation /travel	16,037	12,597	6,078	749	35,461	129	14	143	35,604
Total	\$ 303,322	\$ 396,124	\$ 123,429	\$ 156,955	\$ 979,830	\$ 283,230	\$ 34,803	\$ 318,033	\$ 1,297,863

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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 129,331
Adjustments to reconcile change in net assets	
Realized and unrealized gain on investments	(378)
Depreciation	89,986
Increase in accounts receivable	(75,306)
Decrease in prepaid expenses	29,557
Increase in accounts payable	(3,085)
Increase in deferred revenue	2,462
Decrease in salaries payable	<u>(17,250)</u>
Net Cash Provided by (Used in) Operations	<u>155,317</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(26,919)
Redemption of certificates of deposit	<u>125,938</u>
Net Cash Provided by (Used in) Investing Activities	<u>99,019</u>

Net increase in cash	254,335
Cash and cash equivalents - beginning of year	<u>634,968</u>
Cash and cash equivalents - end of year	<u>\$ 889,303</u>
Interest paid during year	<u>\$ -</u>

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, 2012

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. Costs totaled \$5,761 in 2012.

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 2012.

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. Arc believes it is no longer subject to tax examination for the years prior to 2008.

3. FINANCIAL INSTRUMENTS

Arc maintains deposits in five banks, none of which had deposits that exceeded federally insured limits at June 30, 2012.

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, 2012, Arc's investments included money market and mutual funds with a market value of \$64,989, and a cost of \$77,428, resulting in a cumulative unrealized loss of \$12,439. For the year ended June 30, 2012, Arc sustained unrealized losses of \$288. These amounts are included in the statement of activities.

Investment income includes interest from its certificates of deposits and bank accounts totaling \$7,917 and dividends and interest from the investment account of \$842.

5. PROPERTY AND EQUIPMENT

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

	Balance 7/1/11	Additions	Disposals	Balance 6/30/12	Accumulated Depreciation
Land	\$ 376,595	\$ -	\$ -	\$ 376,595	\$ -
Land improvements	177,069	17,509	-	194,578	147,639
Buildings	2,397,305	1,041	(253)	2,398,093	896,034
Equipment	278,228	10,185	(1,564)	286,849	261,814
Vehicles	<u>35,196</u>	<u>-</u>	<u>-</u>	<u>35,196</u>	<u>35,196</u>
Total	<u>\$ 3,264,393</u>	<u>\$ 28,735</u>	<u>\$ (1,817)</u>	<u>\$ 3,291,311</u>	<u>\$ 1,340,683</u>

Depreciation expense for the year totaled \$ 89,986.

6. NET ASSETS

At June 30, 2012, temporarily restricted net assets include the following:

County appropriation	\$ 123,500
CNH	8,288
Community Foundation literacy	<u>3,744</u>
Total	<u>\$ 135,532</u>

The County appropriation is to fund operations for the fiscal year beginning July 1, 2012.

At June 30, 2012, 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.

7. UNITED WAY SUPPORT

In addition to the allocation from the Community Fund, \$20,758, Arc received a grant of \$6,995 through the United Way Technology Fund.

Arc also received donor choice contributions from the United Way totaling \$7,905 during the year ended June 30, 2012.

8. RETIREMENT PLAN

Arc maintains 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 2012, Arc contributed \$18,000 to employee accounts.

10. 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 2012.

11. 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, 2012:

	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Corporate Bonds	\$ 27,378	\$ -	\$ -	\$ 27,378
Equities	31,257	-	-	31,257
Money Market Fund	6,354	-	-	6,354
Total assets at fair value	<u>\$ 64,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,989</u>

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

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

12. SUBSEQUENT EVENTS

Management has evaluated subsequent 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.

