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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, 2012 to June 30, 2013. 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, 2013, 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, 2013

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

Report on the Financial Statements

We have audited the accompanying financial statements of Arc Rehab Services, Inc. d/b/a The Arc of Greater Boone County, (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arc Rehab Services, Inc. d/b/a The Arc of Greater Boone County as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of Arc Rehab Services, Inc. d/b/a The Arc of Greater Boone County'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arc Rehab Services, Inc. d/b/a The Arc of Greater Boone County's internal control over financial reporting and compliance.

Gentlin & Kramlich, LLC

October 21, 2013

ARC REHAB SERVICES, INC.
d/b/a THE ARC OF GREATER BOONE COUNTY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 688,035	\$ 136,709	\$ 824,744
Certificates of deposit	150,284	-	150,284
Investments (Note 4)	196,615	-	196,615
Accounts receivable	176,666	-	176,666
Prepaid expenses	8,524	-	8,524
Property and equipment, less accumulated depreciation of \$1,424,559 (Note 5)	<u>2,017,376</u>	<u>-</u>	<u>2,017,376</u>
Total Assets	<u>\$ 3,237,500</u>	<u>\$ 136,709</u>	<u>\$ 3,374,209</u>
<u>LIABILITIES AND NET ASSETS</u>			
Liabilities:			
Accounts payable	\$ 21,676	\$ -	\$ 21,676
Deferred revenue	675	-	675
Salaries payable	<u>18,603</u>	<u>-</u>	<u>18,603</u>
Total Liabilities	<u>40,954</u>	<u>-</u>	<u>40,954</u>
Net Assets:			
Unrestricted:			
Undesignated	2,566,546	-	2,566,546
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>136,709</u>	<u>136,709</u>
Total Net Assets	<u>3,196,546</u>	<u>136,709</u>	<u>3,333,255</u>
Total Liabilities and Net Assets	<u>\$ 3,237,500</u>	<u>\$ 136,709</u>	<u>\$ 3,374,209</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, 2013

	Unrestricted	Temporarily Restricted	Total
<u>REVENUE</u>			
State Developmental Disabilities	\$ 24,090	\$ -	\$ 24,090
Vocational Rehabilitation contract	85,271	-	85,271
Group home contracts	773,328	-	773,328
WIC	132,730	-	132,730
Medicaid Waiver	134,446	-	134,446
United Way support (Note 7)	41,096	-	41,096
Contributions	28,049	-	28,049
County appropriation	-	130,000	130,000
Other grants	773	12,525	13,298
Work center revenue	30,740	5,000	35,740
Rental income	17,760	-	17,760
Realized and unrealized loss on investments	(45)	-	(45)
Investment income	6,242	-	6,242
Miscellaneous	15,742	-	15,742
	<u>1,290,222</u>	<u>147,525</u>	<u>1,437,747</u>
Total Revenue			
Net assets released from restrictions	<u>146,348</u>	<u>(146,348)</u>	<u>-</u>
Total Revenue and Support	<u>1,436,570</u>	<u>1,177</u>	<u>1,437,747</u>
<u>EXPENSES</u>			
<i>Program Services:</i>			
Sheltered employment	321,230	-	321,230
Personal and community services	408,405	-	408,405
Job Connection	128,853	-	128,853
Children/family services	146,819	-	146,819
	<u>1,005,307</u>	<u>-</u>	<u>1,005,307</u>
Total Program Services			
<i>Supporting Services:</i>			
Administration	271,273	-	271,273
Fundraising	35,250	-	35,250
	<u>1,311,830</u>	<u>-</u>	<u>1,311,830</u>
Total Expenses			
Increase (decrease) in net assets	124,740	1,177	125,917
Net assets - beginning of year	<u>3,071,806</u>	<u>135,532</u>	<u>3,207,338</u>
Net assets - end of year	<u>\$ 3,196,546</u>	<u>\$ 136,709</u>	<u>\$ 3,333,255</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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Sheltered Employment	Personal & Community Services	Job Connection	Children/ Family Services	Program Services Total	General and Administrative	Fundraising	Supporting Services Total	Total
Personnel services	\$ 198,895	\$ 284,456	\$ 104,928	\$ 112,686	\$ 700,965	\$ 164,472	\$ 21,372	\$ 185,844	\$ 886,809
Contract services	1,909	293	20	10,449	12,671	305	40	345	13,016
Supplies	28,264	8,010	1,537	9,184	46,995	8,034	1,044	9,078	56,073
Staff development	256	393	91	-	740	268	35	303	1,043
Postage /shipping	713	853	254	1,513	3,333	1,278	166	1,444	4,777
Occupancy	20,456	35,573	2,564	4,160	62,753	34,714	4,511	39,225	101,978
Equipment operation	12,957	15,694	4,667	1,497	34,815	7,988	1,038	9,026	43,841
Professional fees	9,653	10,962	3,997	529	25,141	18,682	2,428	21,110	46,251
Dues	183	241	289	-	713	7,435	966	8,401	9,114
Depreciation	23,534	29,993	1,744	3,886	59,157	26,211	3,406	29,617	88,774
Other	10,594	6,997	1,018	656	19,265	1,468	191	1,659	20,924
Transportation /travel	13,816	14,940	7,744	2,259	38,759	417	54	471	39,230
Total	\$ 321,230	\$ 408,405	\$ 128,853	\$ 146,819	\$ 1,005,307	\$ 271,273	\$ 35,250	\$ 306,523	\$ 1,311,830

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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 125,917
Adjustments to reconcile change in net assets	
Realized and unrealized loss on investments	45
Depreciation	88,774
Decrease in accounts receivable	21,622
Increase in prepaid expenses	(5,075)
Increase in accounts payable	5,668
Increase in deferred revenue	(1,787)
Increase in salaries payable	<u>623</u>
 Net Cash Provided by (Used in) Operations	 <u>235,787</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(155,522)
Purchase of investments	(131,671)
Purchase of certificates of deposit	<u>(13,154)</u>
 Net Cash Provided by (Used in) Investing Activities	 <u>(300,347)</u>

Net increase in cash	(64,560)
Cash and cash equivalents - beginning of year	<u>889,304</u>
Cash and cash equivalents - end of year	<u>\$ 824,744</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, 2013

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 \$9,666 in 2013.

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 2013.

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

Net assets – Net assets are classified according to donor-imposed restrictions. Unrestricted net assets are not subject to donor restriction. Temporarily restricted net assets are created by donor-imposed stipulations that either expire by the passage of time or purpose. When such restrictions are met, the net assets are released from restriction and reclassified as unrestricted net assets. Permanently restricted net assets are created by donor restrictions that neither expire with the passage of time nor can be removed by satisfying a specific purpose. As of June 30, 2013, there are no permanently restricted net assets.

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 2009.

3. FINANCIAL INSTRUMENTS

Arc maintains deposits in five banks, none of which had deposits that exceeded federally insured limits at June 30, 2013.

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, 2013, Arc's investments included money market and mutual funds with a market value of \$196,615, and a cost of \$207,747, resulting in a cumulative unrealized loss of \$11,132. For the year ended June 30, 2013, Arc sustained unrealized losses of \$2,386 and realized gains of \$2,341. These amounts are included in the statement of activities.

Investment income includes interest from its certificates of deposits and bank accounts totaling \$5,571 and dividends and interest from the investment account of \$1,507. Fees of \$836 on the investment account are deducted from this income.

5. PROPERTY AND EQUIPMENT

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

	Balance 7/1/12	Additions	Disposals	Balance 6/30/13	Accumulated Depreciation
Land	\$ 376,595	\$ 93,040	\$ -	\$ 469,635	\$ -
Land improvements	194,578	-	-	194,578	156,740
Buildings	2,398,093	40,418	-	2,438,511	956,217
Equipment	286,849	4,568	-	291,417	277,442
Vehicles	35,196	17,498	(4,900)	47,794	34,160
Total	<u>\$ 3,291,311</u>	<u>\$ 155,524</u>	<u>\$ (4,900)</u>	<u>\$ 3,441,935</u>	<u>\$ 1,424,559</u>

Depreciation expense for the year totaled \$ 88,774.

6. NET ASSETS

At June 30, 2013, temporarily restricted net assets include the following:

County appropriation	\$ 130,000
CNH	1,788
Community Foundation literacy	<u>4,921</u>
Total	<u>\$ 136,709</u>

The County appropriation is to fund operations for the fiscal year beginning July 1, 2013.

At June 30, 2013, 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 \$9,802 through the United Way Facilities Fund.

Arc also received donor choice contributions from the United Way totaling \$10,536 during the year ended June 30, 2013.

8. 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 54% of total revenue in fiscal 2013.

9. 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 minimize 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, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
Bonds	\$ 49,946	\$ -	\$ -	\$ 49,946
Equities	144,533	-	-	144,533
Money Market Fund	<u>2,136</u>	<u>-</u>	<u>-</u>	<u>2,136</u>
Total assets at fair value	<u>\$ 196,615</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 196,615</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.

10. 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 2013, Arc contributed \$13,639 to employee accounts.

11. 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.

