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STATE OF INDIANA

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November 18, 2009

Board of Directors
ARC Rehab Services, Inc.
900 W. Main St.
Lebanon, IN 46052

We have reviewed the audit report prepared by Gauthier & Kimmerling, LLC, Independent Public Accountants, for the period July 1, 2007 to June 30, 2008. 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 the ARC Rehab Services, Inc., as of June 30, 2008, 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.

STATE BOARD OF ACCOUNTS

ARC REHAB SERVICES, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

JUNE 30, 2008

ARC REHAB SERVICES, INC.

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Gauthier & Kimmerling, LLC
accountants & advisors
233 S. McCrea Street • Suite 1000 • Indianapolis, IN 46225 • (317) 636-3265

Independent Auditors' Report

To the Board of Directors
Arc Rehab Services, Inc.
Lebanon, Indiana

We have audited the accompanying statement of financial position of Arc Rehab Services, Inc. (Arc) as of June 30, 2008, 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, 2008, 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 20, 2008, 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 20, 2008

ARC REHAB SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2008

	Unrestricted	Temporarily Restricted	Total
ASSETS			
Cash and cash equivalents	$ 225,310	$ 235,000	$ 460,310
Certificates of deposit	202,489	-	202,489
Investments (Note 4)	72,775	-	72,775
Accounts receivable	99,482	-	99,482
Prepaid expenses	13,323	-	13,323
Property and equipment, less accumulated depreciation of $947,710 (Note 5)	1,971,199	-	1,971,199
Total Assets	$ 2,584,578	$ 235,000	$ 2,819,578
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable	$ 6,893	$ -	$ 6,893
Salaries payable	20,786	-	20,786
Accrued expenses	16,162	-	16,162
Notes payable (Note 6)	251,414	-	251,414
Total Liabilities	295,255	-	295,255
Net Assets:			
Unrestricted:			
Undesignated	1,884,323	-	1,884,323
Board designated maintenance reserve	5,000	-	5,000
Board designated operating reserve	400,000	-	400,000
Temporarily restricted	-	235,000	235,000
Total Net Assets	2,289,323	235,000	2,524,323
Total Liabilities and Net Assets	$ 2,584,578	$ 235,000	$ 2,819,578

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

ARC REHAB SERVICES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

	Unrestricted	Temporarily Restricted	Total
REVENUE			
State Developmental Disabilities Grant	$ 72,699	$ -	$ 72,699
Vocational Rehabilitation contract	33,421	-	33,421
Group home contracts	623,458	-	623,458
WIC contract	87,027	-	87,027
Medicaid Waiver	91,349	-	91,349
United Way support (Note 8)	50,463	-	50,463
Contributions	9,558	-	9,558
County and Township appropriation	855	110,000	110,855
Workshop revenue	46,297	-	46,297
Rental income	20,293	-	20,293
Realized and unrealized gain (loss)	(11,553)	-	(11,553)
Investment income	24,764	-	24,764
Miscellaneous	14,588	-	14,588
Total Revenue	1,063,219	110,000	1,173,219
Net assets released from restrictions	50,000	(50,000)	-
Total Revenue and Support	1,113,219	60,000	1,173,219
EXPENSES			
Program Services:			
Sheltered employment	297,530	-	297,530
Personal and community services	358,073	-	358,073
Job Connection	78,347	-	78,347
Nutritional	78,858	-	78,858
Total Program Services	812,808	-	812,808
Supporting Services:			
Administration	207,557	-	207,557
Fundraising	17,590	-	17,590
Total Expenses	1,037,955	-	1,037,955
Increase (decrease) in net assets	75,264	60,000	135,264
Net assets - beginning of year	2,214,059	175,000	2,389,059
Net assets - end of year	$ 2,289,323	$ 235,000	$ 2,524,323

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

ARC REHAB SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008

	Sheltered Employment	Personal & Community Services	Job Connection	Nutritional	Program Services Total	General and Administrative	Fundraising	Supporting Services Total	Total
Personnel services	$ 194,945	$ 266,073	$ 61,775	$ 60,767	$ 583,560	$ 100,113	$ 6,500	$ 106,613	$ 690,173
Contract services	10,942	2,849	566	-	14,357	-	-	-	14,357
Supplies	4,133	9,529	1,305	1,986	16,953	6,645	738	7,383	24,336
Staff development	414	809	531	-	1,754	389	-	389	2,143
Postage / shipping	719	-	148	932	1,799	422	3,803	4,225	6,024
Occupancy	23,212	30,716	4,044	14,346	72,318	43,378	4,819	48,197	120,515
Equipment operation	18,835	15,789	3,495	590	38,709	9,529	1,060	10,589	49,298
Professional fees	6,019	7,577	1,722	-	15,318	4,593	-	4,593	19,911
Dues	92	115	26	-	233	7,637	-	7,637	7,870
Depreciation	30,481	21,897	1,951	-	54,329	28,812	-	28,812	83,141
Other	61	309	-	237	607	-	-	-	607
Transportation / travel	7,677	2,410	2,784	-	12,871	6,039	670	6,709	19,580
Total	$ 297,530	$ 358,073	$ 78,347	$ 78,858	$ 812,808	$ 207,557	$ 17,590	$ 225,147	$ 1,037,955

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

ARC REHAB SERVICES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 135,264
Adjustments to reconcile change in net assets	
Unrealized loss on investments	11,970
Realized gain on investments	(417)
Depreciation	83,141
Increase in accounts receivable	(17,713)
Decrease in prepaid expenses	3,609
Increase in accounts payable	77
Increase in salaries payable	1,059
Decrease in accrued expenses	(1,249)
Net Cash Provided by (Used in) Operations	215,741
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	217
Disposal of property and equipment	292
Redemption of certificates of deposit	370,974
Purchase of property and equipment	(33,486)
Purchase of certificates of deposit	(269,152)
Net Cash Provided by (Used in) Investing Activities	68,845
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on notes payable	(15,692)
Net Cash Provided by (Used in) Financing Activities	(15,692)
Net decrease in cash	268,894
Cash and cash equivalents - beginning of year	191,416
Cash and cash equivalents - end of year	$ 460,310
Interest paid during year	$ 16,283

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

1. NATURE OF THE ORGANIZATION

Arc Rehab Services, Inc. (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 workshop
- Supported employment services

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

Child 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. Arc received 43% of its operating revenue from one such group home provider.

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.

(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.

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 2008.

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.

3. FINANCIAL INSTRUMENTS

Arc maintains deposits in three banks in amounts that exceeded federally insured limits. Insured limits subsequently were increased and these accounts no longer exceed these limits.

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, 2008, Arc's investments included mutual funds with a market value of $72,775 and a cost of $71,557, resulting in a cumulative unrealized gain of $1,219. For the year ended June 30, 2008, Arc sustained unrealized losses of $11,970 and realized gains of $417. These amounts are included in the statement of activities.

Investment income includes interest from its certificates of deposits and bank accounts totaling $24,981 and dividends of $658, which are offset by fees of $875.

5. PROPERTY AND EQUIPMENT

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

	Balance 7/1/07	Additions	Disposals	Balance 6/30/08	Accumulated Depreciation
Land	$ 224,169	$ -	$ -	$ 224,169	$ -
Land improvements	147,877	-	-	147,877	106,378
Building	2,277,560	8,094	-	2,285,654	651,787
Equipment	244,344	20,492	(44,148)	220,688	164,402
Vehicles	59,302	4,900	(23,681)	40,521	25,143
Total	$ 2,953,252	$ 33,486	$ (67,829)	$ 2,918,909	$ 947,710

Depreciation expense for the year totaled $83,141.

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 has 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 at June 30, 2008, totaled $251,414.

Future maturities of long-term debt are as follows:

Year ending June 30,	
2009	$ 17,175
2010	18,250
2011	19,394
2012	20,576
2013	21,897
Thereafter	154,122
Total	$ 251,414

7. NET ASSETS

At June 30, 2008, temporarily restricted net assets include the following:

United Way - debt service reserve	$ 125,000
County appropriation	110,000
Total	$ 235,000

United Way of Central Indiana has specified that Arc maintain a debt service reserve until the mortgage on the office building is repaid.

The County appropriation is to fund operations for the fiscal year beginning July 1, 2008.

(Continued)

7. NET ASSETS – Continued

At June 30, 2008, Board designated net assets consisted of a $400,000 operating reserve and a $5,000 repair reserve, when combined with the United Way – debt service reserve brings the total of building reserves to $130,000.

Board designated reserves can be modified by action of the Board.

8. UNITED WAY SUPPORT

During the year, Arc received an award of $23,749 through the United Way Community Solutions Fund in support of three of its programs:

Main Street Enterprises	$ 11,222
Job Connection	1,306
First Steps	11,221
	$ 23,749

Arc received donor choice contributions from the United Way totaling $26,714 during the year ended June 30, 2008.

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 does not require employer contributions and none were made during the year.

10. WIC RECONCILIATION

Below is a reconciliation of the Nutritional function on the statement of functional expenses, and claims made for the reimbursement period ending fiscal year June 30, 2008, for the WIC program:

	Statement of Functional Expenses Nutritional	WIC portion of supporting services claimed for reimbursement	Total expenses claimed for reimbursement for the period
Personnel	$ 60,767	$ -	$ 60,767
Supplies	1,986	-	1,986
Postage	932	-	932
Occupancy	14,346	-	14,346
Equipment opr.	590	-	590
Other	237	-	237
Administration	-	8,169	8,169
Total	$ 78,858	$ 8,169	$ 87,027

ARC REHAB SERVICES, INC.
900 W. Main Street
Lebanon, Indiana 46052

October 20, 2008

Joel L. Gauthier
Gauthier & Kimmerling, LLC
One Jackson Square
233 S. McCrea Street, Suite 1000
Indianapolis, Indiana 46225

Dear Mr. Gauthier:

In connection with your audit of the financial statements of Arc Rehab Services, Inc. as of June 30, 2008 and for the year then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly in all material respects, the financial position and results of operations in conformity with generally accepted accounting principles, we confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. We are responsible for the fair presentation in the financial statements of financial position and results of operations in conformity with generally accepted accounting principles.

2. We have made available to you all:

   - financial records and related data
   - minutes of meetings of directors

3. There has been no:

   - fraud involving management or employees who have significant roles in internal control.

   - fraud involving other employees or contractors that could have a material effect on the financial statements.

   - communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

4. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

5. We have satisfactory title to all owned assets and such assets, except at noted in the financial statements, have not been pledged as collateral.

6. There are no:

   - violations or possible violations of laws, regulations, or grant provisions whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

   - material liabilities, gain contingencies or loss contingencies that are required to be accrued or disclosed in accordance with Statement of Financial Standards No. 5.

7. The Arc has not retained the services of an attorney during the year. There are no unasserted claims or assessments that are potentially material to the financial statements and probable of assertion.

8. All contributions from individuals, corporations, and foundations have been recorded in the financial records.

9. We have identified all forms of financial assistance and have provided copies of the related contractual agreements which specify all compliance requirements.

10. We have complied with all aspects of contractual agreements, including those with grantors, that would have a material effect on the financial statements in the event of noncompliance.

11. There are no material transactions with affiliated organizations that have not been properly recorded in the accounting records underlying the financial statements.

12. No events other than those disclosed in the financial statements have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

13. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position 94-6 have been reported in the financial statements.

14. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and the aggregate, to the financial statements taken as a whole.

Sincerely,

Karol King

Karol King
Business Manager

ARC REHAB SERVICES, INC.
Summary of Unadjusted Differences
For the Year Ended June 30, 2008

No matters were noted.