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STATE OF INDIANA

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December 31, 2009

Board of Directors
Gibson County Area
Rehabilitation Centers, Inc.
4207 W. State Rd. 64
Princeton, IN 47670

We have reviewed the audit report prepared by Boyd, Pinegar & Associates, PC, 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 Gibson County Area Rehabilitation Centers, 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

GIBSON COUNTY AREA
REHABILITATION CENTERS, INC.

Financial Statements
June 30, 2008 and 2007

BP&A
BOYD
PINEGAR &
ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
8118 MADISON AVENUE ~ INDIANAPOLIS, INDIANA 46227
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Independent Auditor's Report

Board of Directors
Gibson County Area Rehabilitation Centers, Inc.
Princeton, Indiana

We have audited the accompanying statements of financial position of Gibson County Area Rehabilitation Centers, Inc. (an Indiana nonprofit organization) as of June 30, 2008 and 2007 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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 audits provide 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 Gibson County Area Rehabilitation Centers, Inc. as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Boyd, Pinegar & Associates, P.C.
BOYD, PINEGAR & ASSOCIATES, P.C.

Indianapolis, Indiana
December 28, 2008

GIBSON COUNTY AREA REHABILITATION CENTERS, INC.

Statements of Financial Position

June 30, 2008 and 2007

	2008	2007
Assets		
Current Assets:		
Cash (Notes 1 and 5)	$ 1,051,893	$ 742,833
Investments - Bank certificates of deposit	406,880	385,764
Accounts receivable (Notes 1 and 5)	96,647	100,070
Medicaid accounts receivable (Notes 1 and 5)	205,626	154,065
Receivables from Division of Disability, Aging, and Rehabilitative Services (Notes 1 and 5)	165,869	110,945
Less allowance for doubtful accounts (Note 1)	(10,000)	(10,000)
Prepaid expense and other assets	77,893	81,636
Total current assets	1,994,808	1,565,313
Property and equipment (Notes 1 and 2):		
Land	146,337	91,337
Buildings and improvements	3,166,231	2,630,515
Furnishings and equipment	471,736	454,441
Vehicles	614,326	602,751
Less accumulated depreciation	(1,563,340)	(1,382,279)
Total property and equipment	2,835,290	2,396,765
Other Assets:		
Funds held by Community Foundation Alliance (Note 1)	374,539	398,834
Other	5,596	5,596
Total other assets	380,135	404,430
Total assets	$ 5,210,233	$ 4,366,508
Liabilities and Net Assets		
Current Liabilities:		
Current maturities long-term debt (Note 2)	42,605	54,594
Accounts payable	168,978	95,003
Land acquisition settlement (Note 11)	55,000	-
Medicaid payable	8,173	8,173
Subgrantee payable	7,596	15,498
Accrued salaries and related liabilities	146,421	138,784
Deferred Revenue	100,212	-
Unearned revenue (Note 1)	3,243	13,988
Total current liabilities	532,228	326,040
Long-Term Liabilities:		
Notes payable (Note 2)	641,563	400,913
Total long-term liabilities	641,563	400,913
Net Assets		
Unrestricted	3,719,518	3,323,310
Permanently restricted (Note 1)	316,924	316,245
Total net assets	4,036,442	3,639,555
Total liabilities and net assets	$ 5,210,233	$ 4,366,508

The accompanying notes to the financial statements are an integral part of these financial statements

GIBSON COUNTY AREA REHABILITATION CENTERS, INC.

Statement of Activities

For the year ended June 30, 2008

	Total	Unrestricted	Permanently Restricted
Revenue and Other Support			
Public Support:			
Federal funds	$ 401,522	$ 401,522	
County funds	20,000	20,000	
United Way allocation	50,523	50,523	
Contributions	27,258	26,579	679
Total public support	499,303	498,624	679
Service Revenue:			
Day program	634,982	634,982	
Residential program	3,954,302	3,954,302	
Contract income	238,859	238,859	
Other service revenue	2,229	2,229	
Total service revenue	4,830,372	4,830,372	-
Other Gains:			
Administration fees	91,546	91,546	
Interest income	72,230	72,230	
Miscellaneous	393,177	393,177	
Realized gain on investments	10,129	10,129	
Gain (Loss) on sale of assets	(21,846)	(21,846)	
Total other gains	545,236	545,236	-
Total support, revenue, and gains	5,874,911	5,874,232	679
Expenses	5,455,722	5,455,722	
Excess of revenue, support, and gains over expenses	419,189	418,510	679
Change in net unrealized gains and losses on other than trading securities	(22,302)	(22,302)	-
Increase (Decrease) in Net Assets	396,887	396,208	679
Net Assets, Beginning of Year	3,639,555	3,323,310	316,245
Net Assets, End of Year	$ 4,036,442	$ 3,719,518	$ 316,924

The accompanying notes to the financial statements are an integral part of these financial statements

GIBSON COUNTY AREA REHABILITATION CENTERS, INC.

Statement of Activities

For the year ended June 30, 2007

	Total	Unrestricted	Permanently Restricted
Revenue and Other Support			
Public Support:			
Federal funds	$ 189,341	$ 189,341	
County funds	20,000	20,000	
United Way allocation	60,227	60,227	
Contributions	28,661	27,357	1,304
Total public support	298,229	296,925	1,304
Service Revenue:			
Day program	473,536	$ 473,536	
Residential program	3,919,705	3,919,705	
Contract income	229,743	229,743	
Other service revenue	2,000	2,000	
Total service revenue	4,624,984	4,624,984	-
Other Gains/(Losses):			
Administration fees	88,880	88,880	
Interest income	27,092	27,092	
Miscellaneous	378,850	378,850	
Realized gain on investments	19,172	19,172	
Total other gains	513,994	513,994	-
Total support, revenue, and gains	5,437,207	5,435,903	1,304
Expenses	5,211,157	5,211,157	
Excess of revenue, support, and gains over expenses	226,050	224,746	1,304
Change in net unrealized gains and losses on other than trading securities	18,664	18,664	
Increase (Decrease) in Net Assets	244,714	243,410	1,304
Net Assets, Beginning of Year	3,394,841	3,079,900	314,941
Net Assets, End of Year	$ 3,639,555	$ 3,323,310	$ 316,245

The accompanying notes to the financial statements are an integral part of these financial statements

GIBSON COUNTY AREA REHABILITATION CENTERS, INC.

Statements of Functional Expenses

For the years ended June 30, 2008 and 2007

	Salaries & Wages	Employee Benefits	Professional Services	Supplies	Occupancy	Travel	Depreciation	Interest	Other	2008 Total	2007 Total
Program Services:											
Life Skills	189,558	22,419	387	5,916	28,888	156	15,591		73	262,988	234,804
Social services	76,153	15,712	71	429	1,498	610	676		1,925	97,074	98,729
Industrial program	292,297	22,705	2,712	8,783	40,156	28,722	17,204		25,589	438,168	460,795
Transportation	55,786	4,931			1,635	41,594	19,466		94	123,506	135,743
Women, infants, and children	81,337	18,442	107	11,469	8,648	5,735	589		1,900	128,227	119,104
program (WIC)										-	
Childrens Center	330,423	62,051	1,634	54,110	32,560	2,326	29,633		11,733	524,470	484,487
Infant program										-	3,760
Prince Street group home	188,182	19,737	17,828	29,672	18,757	8,616	22,847	211	32,074	337,924	308,600
Stout Street group home	225,353	21,331	14,139	32,358	22,801	6,185	15,327		34,675	372,169	351,158
Eighth Street group home	247,146	39,001	17,793	36,245	26,638	7,845	8,486		42,023	425,177	380,008
Shared Residential program	153,304	23,980	2,200	8,759	13,778	10,081	2,491		1,288	215,881	179,583
Placement services program	59,789	9,881	225	1,554	8,323	5,576	4,651		453	90,452	99,827
Living Options program	281,899	42,158	33,157	1,815	8,234	34,771	22,152		642	424,828	518,856
Targeted Case Management										-	6,933
Supported Living	1,031,710	121,342	65,328	10,827	39,684	20,243	30,052	2,269	19,046	1,340,501	1,027,551
Janitorial Services	333	25	68		5,197					5,623	14,866
Subgrantee expenses									56,453	56,453	53,237
Total program services	3,213,270	423,715	155,649	201,937	256,797	172,460	189,165	2,480	227,968	4,843,441	4,478,041
Support Services:											
Administration	278,897	111,137	30,431	31,262	19,956	7,196	5,138	34,535	93,729	612,281	733,116
Total Expenses	$3,492,167	$534,852	$186,080	$233,199	$276,753	$179,656	$194,303	$37,015	$321,697	$5,455,722	$5,211,157

The accompanying notes to the financial statements are an integral part of these financial statements

GIBSON COUNTY AREA REHABILITATION CENTERS, INC.

Statements of Cash Flows

For the years ended June 30, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Change in net assets	$ 396,887	$ 246,426
Changes to income not requiring cash:		
Permanently restricted contributions	(679)	(1,304)
Depreciation	194,303	192,422
Realized gain/(loss) on investments	(10,129)	19,172
Unrealized gain/(loss) on investment	(22,302)	18,664
Loss on disposal of fixed assets	21,846	1,713
Community contributions (Note 10)	44,930	162,053
Bad debt expense	-	28,588
Changes in assets and liabilities increasing (decreasing) cash flows from operating activities:		
Receivables	(103,062)	(41,105)
Prepaid expenses	3,743	(17,485)
Other assets	-	(2,100)
Accounts payable	73,975	11,760
Accrued wages and benefits	7,637	(6,915)
Third party payable	(7,902)	9,253
Unearned and deferred revenue	89,467	(4,927)
Net cash provided (used) by operating activities	688,714	616,215
Cash Flows From Investing Activities		
Net (increase)/decrease in investments	21,116	(762)
Proceeds from sale of fixed assets	-	150
Purchase of property and equipment	(629,432)	(345,703)
Net cash used by investing activities	(608,316)	(346,315)
Cash Flows From Financing Activities		
Restricted contributions received	-	1,304
Proceeds from new loans	273,758	400,233
Reduction of long-term debt	(45,096)	(267,441)
Net cash used by financing activities	228,662	134,096
Net Increase in Cash	309,060	403,996
Cash, Beginning of Year	742,833	338,837
Cash, End of Year	$ 1,051,893	$ 742,833
Supplemental Information		
Cash paid during the year for:		
Interest	$ 37,015	$ 18,018
Income taxes	-	-

The accompanying notes to the financial statements are an integral part of these financial statements

Note 1 – Summary of Significant Accounting Policies

Organization
Gibson County Area Rehabilitation Centers, Inc. (the Agency) was incorporated in 1963 to provide quality adult and child vocational, rehabilitative and educational services to the handicapped and economically disadvantaged of Gibson County.

Public Support
The Agency contracts with various State and Federal agencies to provide a wide variety of rehabilitation services to the handicapped. The Agency vouchers the State agencies monthly based on current activity and the original amount of the grant. Revenue is recognized as services are performed. These vouchers and grants are subject to periodic audit by the State. No estimated settlements have been recorded for periods not audited by the State as such adjustments, if any, cannot reasonably be determined.

The Agency also received funds from Gibson County and the United Way. These amounts are recognized as revenue when the services are performed.

Service Revenue
Service revenue is recorded at established charges when the service is rendered. Residential services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates. The Agency submits annual cost reports to determine its Medicaid rates. These reports are subject to periodic audit by the Medicaid Audit Contractor. No estimated settlements have been recorded for periods not audited by the Medicaid Audit Contractor, as such adjustments, if any, cannot reasonably be determined.

Given the current regulatory and reimbursement environment, there can be no assurances that adequate reimbursement levels will continue to be available for the services provided by the Agency. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on the Agency's liquidity, financial condition and results of operations.

Contributions
In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restriction. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net assets classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Agency reports the support as unrestricted.

(Note 1 – Continued)
Net Asset Classifications
The financial statements have been prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations*. SFAS No. 117 requires, among other things, that the financial statements report the changes in and total of each of the net asset classes, based upon donor restrictions, as applicable. Net assets are to be classified as unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets
The unrestricted net asset class includes general assets and liabilities of the Agency. The unrestricted net assets of the Agency may be used at the discretion of management to support the Agency's purposes and operations.

Permanently Restricted Net Assets
The permanently restricted net asset class includes those assets that have been permanently restricted by the donors. The Agency has donated $316,924 to another not-for-profit organization under a split-interest agreement. These monies are to be held in a fund designated for Gibson County Area Rehabilitation Centers, Inc. As the Agency does not have access to the principal donated, the amount has been reported as permanently restricted net assets. The Agency receives any income generated from the donation.

Temporarily Restricted Net Assets
There are no temporarily restricted net assets.

Cash and Cash Equivalents
The Agency considers all highly liquid investments with a maturity of three months or less at time of purchase to be cash equivalents. Cash includes petty cash and interest-bearing deposits.

Property and Equipment
Property and equipment are stated at cost, or for donations, at fair market value at the date of donation, and include expenditures for new additions and repairs which substantially increase the useful lives of existing property and equipment. Governmental units funding property and equipment through grants retain a security interest over various periods. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is credited to or charged against income for the period.

Depreciation is computed using the straight-line method at rates designed to depreciate the costs of assets over their estimated useful lives as follows:

Buildings and improvements: 27½ to 35 years
Furnishings and equipment: 5 to 7 years

(Note 1 – Continued)

Other Assets

The Agency donated cash to another non-profit agency under a split-interest arrangement. Gibson County Area Rehabilitation Center is entitled to all earnings on the fund. However, the principal balance will be held by the other entity in perpetuity. Amounts recorded as other assets represent the Agency's anticipated future earnings from the arrangement. All earnings on the fund are treated as unrestricted.

Unearned Revenue

The balance in unearned revenue relates to double billings and overpayments on Medicaid program services. They have been recorded as a liability pending resolution with the billing agency.

Administration Fees

The Agency provides management and accounting services for another area rehabilitation center. Fees earned for these services are reported as other revenue.

Income Taxes

The Agency is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The Agency is not considered to be a private foundation.

Advertising Expense

It is the Agency's policy to charge amounts incurred for advertising to expense in the period in which they are incurred. Advertising expense totaled $5,226 and $5,130 for 2008 and 2007, respectively, and has been included in other expenses in the Statement of Functional Expenses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable are recognized on the accrual basis of accounting. Accounts are charged to bad debt expense as they are deemed uncollectible based upon a periodic review of aging and collections. Credit losses, when realized, have been within the range of the Company's expectations and, historically, have not been significant. For the years ending June 30, 2008 and 2007, the Agency has concluded that a reserve of $10,000 be established for potential uncollectible accounts.

Note 2 – Long-Term Debt

Long-term debt consisted of the following at June 30:	2008	2007
6.0% variable rate mortgage note payable to bank due December 2007, payable in monthly installments of $2,884 including interest.	$43,883	$46,532
3.15% fixed rate note payable to bank due August 2008, payable in monthly installments of $658, including interest. Secured by a vehicle.	679	8,741
Industrial Revenue Bonds issued thru Old National Bank and the City of Princeton; interest payable monthly thru July 2007; principal and interest payable monthly beginning August 1, 2007; interest rate varies; secured by a mortgage and assets.	639,606	400,234
Total	$684,168	$455,507
Less current maturities of long-term debt:	(42,605)	(54,594)
Notes payable – long term	$641,563	$400,913

The future maturities of long-term debt are as follows:

2009	$42,605
2010	45,630
2011	47,274
2012	48,930
2013	70,373
Thereafter	429,356
	$684,168

Note 3 – Leases

The Agency leases a vehicle and 5 copiers under long-term lease arrangements. Such leases are classified as operating leases and expire in various years through December 2009.

The following is a schedule of minimum operating lease payments for subsequent years ending June 30:

2009	3,684
Thereafter	-0-

Rental expense totaled $24,518 and $28,290 in 2008 and 2007, respectively and has been included in occupancy and travel expenses in the Statement of Functional Expenses.

Note 4 – 401(k) Plan

The Agency provides a 401(k) plan for employees to contribute 1% to 20% of their salary and wages. For all full-time employees the Agency will match 25% of the employee's contribution up to 5% of the employee's total gross wages. The company at the discretion of the board of directors may make additional contributions. The employee contributions vest immediately. The employer contributions vest according to the following schedule:

	Vesting %
Year 1	20%
Year 2	40%
Year 3	60%
Year 4	80%
Year 5	100%

The Agency's contribution totaled $10,838 and $11,178 in 2008 and 2007, respectively, and has been included in employee benefits expense in the Statement of Functional Expenses. According to the provisions of the plan, an unfunded liability cannot exist.

Note 5 – Concentration of Credit Risk

The Agency is located in Princeton, Indiana. The Agency provides services to individuals and companies that are billed in arrears on a monthly basis. The majority of individual services are provided under grant contracts or provider agreements with state agencies. Companies are provided credit in the normal course of business without collateral.

Accounts receivable by payer was as follows at June 30:	2008	2007
Indiana Family and Social Services Administration	35%	31%
Medicaid	44%	42%
Contract work from commercial companies	12%	12%
Individuals and other third-party payers (not over 10%)	9%	15%
	100%	100%

The Agency maintains cash and investment balances with area banks, which, at times, may exceed federally insured limits. The funds on deposit at area banks that exceeded federally insured limits totaled $1,058,306 and $701,357 at 2008 and 2007, respectively. The Agency has not experienced any loss in these accounts and believes it is not exposed to any significant credit risk on cash and investments.

Note 6 – Affiliated Companies

The Agency sponsors an Indiana corporation, GCARC Housing, Inc., organized for the development and management of a supervised group living project for the handicapped and economically disadvantaged. A Capital Advance Program from the U.S. Department of Housing and Urban Development (HUD) has financed construction of the project. HUD approved and provided $550,076 of capital assistance for the program in 1994. In addition, HUD approved rent subsidies for lower income tenants.

The Agency has advanced amounts to GCARC Housing, Inc., for organizational costs and working capital needs. Amounts due from GCARC Housing, Inc. at June 30, 2008 and 2007 were $5,099 for each year, and have been included in accounts receivable.

Note 7 – Fair Value of Financial Instruments

The carrying amounts reflected in the Statement of Financial Position for cash, accounts receivable, and accounts payable approximate their respective fair values due to the short maturities of those instruments.

Note 8 – Commitments and Contingencies

The Agency is subject to claims and lawsuits, which arise, primarily in the ordinary course of business. It is the opinion of management and legal counsel that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Agency.

Note 9 – Compensated Absences

Employees of the Agency are entitled to paid vacations depending on length of service and other factors. The value of accumulated vacation accrued is estimated at $51,637 and $51,653 for June 30, 2008 and 2007, respectively. These amounts have been included in accrued salaries and related liabilities in the accompanying financial statements. There is a possibility that the actual amounts could differ from these estimates.

Note 10 - Community Contributions

The Agency exists to serve developmentally disabled individuals. Accordingly, at times, services are provided to individuals before approval from the funding agency. The Agency makes every attempt to collect for these services but unfortunately some are ultimately not collectible. The agency has shown these amounts as community contributions. The amount recorded as community contributions was $44,930 and $162,053 for the years ended June 30, 2008 and 2007 respectively.

Note 11 – Land Acquisition Settlement

Construction of a new building resulted in incorrect placement of part of the building onto 17 feet of land belonging to the neighboring business. In order to avoid a lawsuit with the neighbor and potential destruction of the part of the building on the neighbor's land, an agreement to purchase the land from the neighbor for $55,000 was agreed to. The sale took place and title to the property transferred on December 8, 2008.