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STATE OF INDIANA

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January 21, 2010

Board of Directors
Pike County Area
Rehabilitation Centers, Inc.
715 Illinois St.
Petersburg, IN 47567

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 Pike 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

PIKE 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
Telephone: (317) 887-9516 Fax: (317) 887-9681

Independent Auditor's Report

Board of Directors
Pike County Area Rehabilitation Centers, Inc.
Petersburg, Indiana

We have audited the accompanying statements of financial position of Pike 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 Pike 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

PIKE COUNTY AREA REHABILITATION CENTERS, INC.

Statements of Financial Position

June 30, 2008 and 2007

	2008	2007
Assets		
Current Assets:		
Cash (Note 1)	$ 753,396	$ 759,253
Investments - Bank certificates of deposit	400,000	236,425
Accounts receivable (Note 5)	66,682	40,887
Medicaid accounts receivable (Note 5)	150,699	180,243
Government receivables (Note 5)	28,037	31,787
Interest receivable	7,820	4,918
Prepaid expenses	56,249	39,982
Total current assets	1,462,883	1,293,495
Property and equipment (Notes 1 and 2):		
Land	9,000	9,000
Buildings and improvements	1,434,231	1,423,294
Furnishings and equipment	171,805	164,573
Vehicles	211,874	211,874
Less accumulated depreciation	(1,048,598)	(972,461)
Total property and equipment	778,312	836,279
Other Assets:		
Funds held by Community Foundation Alliance (Note 1)	27,402	27,111
Other	440	-
Total other assets	27,842	27,111
Total assets	$ 2,269,037	$ 2,156,885
Liabilities and Net Assets		
Current Liabilities:		
Current maturities long-term debt (Note 2)	27,226	21,872
Accounts payable	30,337	44,411
Accrued salaries and related liabilities (Note 9)	105,573	108,839
Unearned revenue (Note 1)	5,725	5,725
Total current liabilities	168,861	180,847
Long-Term Liabilities:		
Notes payable (Note 2)	501,759	534,095
Total long-term liabilities	501,759	534,095
Total liabilities	670,620	714,942
Net Assets		
Unrestricted (Note 1)	1,598,417	1,441,943
Total liabilities and net assets	$ 2,269,037	$ 2,156,885

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

PIKE COUNTY AREA REHABILITATION CENTERS, INC.

Statements of Activities
For the years ended June 30, 2008 and 2007

	2008	2007
Changes in unrestricted net assets		
Revenue and Other Support		
Public Support:		
Federal funds	$ -	$ 12,748
County funds	15,000	15,000
Contributions	6,861	29,402
Total public support	21,861	57,150
Service Revenue:		
Day program	64,072	61,817
Residential program	2,528,931	2,366,036
Contract income	130,988	119,709
Other service revenue	20,381	14,927
Total service revenue	2,744,372	2,562,489
Other Gains:		
Interest income	42,085	42,002
Miscellaneous	115	21,235
Total other gains	42,200	63,237
Total support, revenue, and gains	2,808,433	2,682,876
Expenses	2,651,959	2,502,693
Increase (Decrease) in Net Assets	156,474	180,183
Net Assets, Beginning of Year	1,441,943	1,261,760
Net Assets, End of Year	$ 1,598,417	$ 1,441,943

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

PIKE 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:											
Vocational rehab program	$ 24,412	$ 10,280		$ 289	$ 244	$ 4,948	$ 337		$ 64	$ 40,574	$ 36,444
Adult services	32,144	9,098		311	2,163	-	915		133	44,764	46,476
Collection site program	63,893	5,554								69,447	73,591
SILP program	174,823	60,371		1,793	7,740	19,672	2,993	3,420	2,786	273,598	177,646
Targeted Case Management	-									-	-
1214 Main Street group home	202,195	84,903	11,925	21,706	13,410	13,901	13,193	9,792	35,315	406,340	418,717
403 S. 3rd St group home	212,812	65,786	9,781	26,051	13,566	12,158	13,698	16,843	33,796	404,491	391,342
400 Mill Street group home	158,655	59,781	4,071	30,407	14,689	17,561	4,506		28,663	318,333	311,936
Living Options program	58,954	14,299		162	356	10,706	149		11	84,637	66,595
Medicaid waiver program	143,706	45,307	-	110	2,053	4,512	3,936	2,940	25	202,589	198,228
Industrial program	211,887	51,067	349	7,427	31,239	27,716	24,545	-	1,137	355,367	346,147
Total Program Services :	1,283,481	406,446	26,126	88,256	85,460	111,174	64,272	32,995	101,930	2,200,140	2,067,122
Management & General:											
Administration	105,798	61,920	105,846	10,644	17,308	2,995	1,777		8,038	314,326	309,803
Residential Admin	75,478	32,920	2,000	5,093	4,150	5,991	10,755		1,106	137,493	125,768
Total Management & General:	181,276	94,840	107,846	15,737	21,458	8,986	12,532	-	9,144	451,819	435,571
Total Expenses	$ 1,464,757	$ 501,286	$ 133,972	$ 103,993	$ 106,918	$ 120,160	$ 76,804	$ 32,995	$ 111,074	$ 2,651,959	$ 2,502,693

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

PIKE 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	$ 156,474	$ 180,183
Changes to income not requiring cash:		
Depreciation	76,804	76,194
Community contributions (Note 10)	2,747	31,410
Bad debt expense	-	-
Changes in assets and liabilities increasing (decreasing) cash flows from operating activities:		
Receivables	4,752	(14,967)
Interest receivable	(2,902)	(1,343)
Prepaid expenses	(16,267)	(24,186)
Accounts payable	(14,074)	(16,862)
Accrued wages and benefits	(3,266)	6,830
Investments	(163,575)	-
Unearned revenue	-	(13,188)
Net cash provided/(used) by operating activities	40,693	224,071
Cash Flows From Investing Activities		
Purchase of property and equipment	(18,837)	(103,740)
Net cash used by investing activities	(18,837)	(103,740)
Cash Flows From Financing Activities		
Proceeds from new borrowings	-	52,000
Reduction of long-term debt	(26,982)	(18,696)
Net cash used by financing activities	(26,982)	33,304
Net Increase/(Decrease) in Cash	(5,126)	153,635
Cash, Beginning of Year	786,364	632,729
Cash, End of Year	$ 781,238	$ 786,364
Supplemental Information		
Cash paid during the year for:		
Interest	$ 32,995	$ 36,028
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

Pike County Area Rehabilitation Centers, Inc. (the Agency) was incorporated in 1974 to provide quality adult and child vocational, rehabilitative and educational services to the handicapped and economically disadvantaged of Pike 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 Pike 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

(Note 1 – Continued)
the contribution is received, the Agency reports the support as unrestricted. During the years ended June 30, 2008 and 2007, the Agency did not receive any temporarily restricted or permanently restricted support.

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.

The Agency maintains unrestricted net assets only. 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.

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

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.

(Note 1 – Continued)

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 $-0- for 2008 and 2007, respectively.

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. As of June 30, 2008, all accounts determined to be uncollectible have been written off by management. The full balance of accounts receivable is considered to be collectible by management and no reserve or allowance has been recorded.

Other Assets

The agency donated cash to another non-profit agency under a split-interest arrangement. Pike County Area Rehabilitation Center is entitled to all earnings on the fund. However, the principle 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.

Note 2 – Long-Term Debt

Long-term debt consisted of the following at June 30:	2008	2007
7.75% variable rate mortgage note payable to bank due September 2014, payable in monthly installments of $602 including interest, mortgaged by building with historical cost of $71,411	35,548	39,828
7.125% variable rate mortgage note payable to bank due March 2022, payable in monthly installments of $2,258 including interest, secured by real estate	237,354	249,020
4.625% fixed rate mortgage note payable to bank due May 2024, payable in monthly installments of $1,536 including interest, secured by real estate	206,475	215,119
6.75% fixed rate mortgage not payable to bank due May 1, 2022, payable in monthly installments of $463 including interest, secured by real estate	49,608	52,000
Total	$528,985	$555,967
Less current maturities of long-term debt:	(27,226)	(21,872)
Notes payable – long term	$501,759	$534,095

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

2009	27,226
2010	28,216
2011	30,067
2012	32,061
2013	34,055
Thereafter	377,360
	$528,985

Note 3 – Leases

The Agency leases vehicles under long-term lease arrangements. Such leases are classified as operating leases and expire in various years through May 2011.

(Note3 – Continued)
The following is a schedule of minimum operating lease payments for subsequent years ending June 30:

2009	24370
2010	19135
2011	7171
Thereafter	-0-

Rental expense totaled $31,713 and $36,964 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 $5,847 and $6,453 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 Petersburg, 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 Division of Disability, Aging and Rehabilitative Services	12%	13%

(Note 5 – Continued)

Medicaid	61%	71%
Individuals and other third-party payers (not over 10%)	27%	16%
	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 $852,346 at June 30, 2008 and $858,107 at June 30, 2007. The Agency has not experienced any loss in these accounts. The Agency believes it is not exposed to any significant credit risk on cash and investments.

Note 6 – Affiliated Companies

The Agency sponsors an Indiana corporation, Pike Industry Housing Corporation, organized for the development and management of a supervised group living project for the handicapped and economically disadvantaged. Financing for the project has been obtained from the U.S. Department of Housing and Urban Development (HUD). Amounts loaned by HUD totaled approximately $734,000 at June 30, 1993.

The Agency has advanced amounts to Pike Industry Housing Corporation for organizational costs and working capital needs. Amounts due from Pike Industry Housing Corporation at June 30, 2008 and 2007 were $4,218 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 $46,039 and $45,313 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 $2,747 and $31,410 for the years ended June 30, 2008 and 2007 respectively.