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July 24, 2013

Charter School Board
The Recovery High School at
Fairbanks, Inc. dba Hope Academy
8102 Clearvista Parkway
Indianapolis, IN 46256

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Blue & Co., LLC, Independent Public Accountants, 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 consolidated financial condition of Fairbanks Hospital, Inc. as of June 30, 2012 and 2011, and the consolidated results of its operations for the periods then ended, on the basis of accounting described in the report.

In addition to the report presented herein, a Supplemental Agreed-Upon Procedures Report for The Recovery High School at Fairbanks, Inc. dba Hope Academy was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report and the Supplemental Agreed-Upon Procedures Report are filed in our office as a matter of public record.

State Board of Accounts



Fairbanks
Experts in addictions. Focused on recovery.®

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2012 AND 2011



FAIRBANKS

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Fairbanks Hospital, Inc.
Indianapolis, Indiana

We have audited the accompanying consolidated balance sheets of Fairbanks Hospital, Inc. (Fairbanks) as of June 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fairbanks as of June 30, 2012 and 2011, and the consolidated results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors
Fairbanks Hospital, Inc.
Indianapolis, Indiana

In accordance with *Government Auditing Standards*, we have issued, under separate cover, our report dated October 24, 2012, on our consideration of Fairbanks' 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 the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

October 24, 2012

FAIRBANKS

CONSOLIDATED BALANCE SHEETS JUNE 30, 2012 AND 2011

ASSETS		
	2012	2011
Current assets		
Cash and cash equivalents	\$ 1,293,943	\$ 1,224,731
Patient accounts receivable, less allowance for doubtful accounts of \$645,700 in 2012 and \$783,106 in 2011	3,698,498	3,280,865
Prepaid expenses	466,773	399,707
Other current assets	343,801	356,278
Total current assets	5,803,015	5,261,581
Assets limited as to use		
Donor restricted	269,243	246,595
Board designated	675,000	675,000
Internally designated	5,668,386	5,519,489
Total assets limited as to use	6,612,629	6,441,084
Property and equipment		
Land	85,000	85,000
Land improvements	619,769	520,017
Buildings and improvements	12,709,141	12,653,276
Equipment and vehicles	6,201,254	5,940,113
Construction in progress	326,760	236,855
	19,941,924	19,435,261
Accumulated depreciation	8,725,178	7,815,346
Property and equipment, net	11,216,746	11,619,915
Other long-term assets		
	60,000	60,000
Total assets	\$ 23,692,390	\$ 23,382,580
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 382,946	\$ 350,474
Salaries, wages and related liabilities	1,127,611	1,208,407
Estimated third party settlements	206,865	193,695
Total current liabilities	1,717,422	1,752,576
Long-term debt, net of current portion		
	74,674	74,674
Total liabilities	1,792,096	1,827,250
Net assets		
Unrestricted	21,631,051	21,308,735
Temporarily restricted	269,243	246,595
Total net assets	21,900,294	21,555,330
Total liabilities and net assets	\$ 23,692,390	\$ 23,382,580

See accompanying notes to consolidated financial statements.

FAIRBANKS

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Operating revenue		
Net patient service revenue	\$ 19,017,562	\$ 17,990,383
Other operating revenue	2,785,426	2,956,194
Net assets released from restrictions for operations	482,385	349,589
Total operating revenue	22,285,373	21,296,166
Operating expenses		
Salaries and benefits	13,698,026	12,901,702
Medical supplies and drugs	951,993	746,323
Fiscal and administrative	964,080	945,221
Food and other	275,365	393,745
Purchased services	1,380,664	1,222,270
Utilities and telephone	352,070	335,195
Maintenance and service	196,368	213,356
Advertising	392,593	368,793
Depreciation	909,649	823,850
Bad debts	2,352,937	1,719,780
Insurance	238,139	235,109
Rent	551,269	498,086
Total operating expenses	22,263,153	20,403,430
Operating income	22,220	892,736
Nonoperating revenue		
Contributions	139,687	155,197
Interest income	22,988	46,352
Total nonoperating revenue	162,675	201,549
Revenue over expenses	184,895	1,094,285
Other changes in net assets		
Net assets released from restrictions for property and equipment	137,421	62,640
Change in unrestricted net assets	322,316	1,156,925
Temporarily restricted net assets		
Interest income from investments	429	1,854
Donations and pledges	642,025	373,897
Net assets released from restrictions for operations	(482,385)	(349,589)
Net assets released from restrictions for property and equipment	(137,421)	(62,640)
Change in temporarily restricted net assets	22,648	(36,478)
Change in net assets	344,964	1,120,447
Net assets		
Beginning of year	21,555,330	20,434,883
End of year	\$ 21,900,294	\$ 21,555,330

See accompanying notes to consolidated financial statements.

FAIRBANKS

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Operating activities		
Change in net assets	\$ 344,964	\$ 1,120,447
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	909,649	823,850
Bad debts	2,352,937	1,719,780
Restricted contributions	(642,025)	(373,897)
Changes in operating assets and liabilities		
Patient accounts receivable	(2,770,570)	(1,683,330)
Prepaid expenses and other current assets	(54,589)	(127,149)
Accounts payable and accrued expenses	32,472	(140,903)
Salaries, wages and related liabilities	(80,796)	93,948
Estimated third party settlements	13,170	66,469
Net cash flows from operating activities	105,212	1,499,215
Investing activities		
Net change in assets limited as to use	(171,545)	(659,517)
Property and equipment additions	(506,480)	(535,305)
Net cash flows from investing activities	(678,025)	(1,194,822)
Financing activities		
Restricted contributions	642,025	373,897
Principal payments on long-term debt	-0-	(132,443)
Net cash flows from financing activities	642,025	241,454
Change in cash and cash equivalents	69,212	545,847
Cash and cash equivalents		
Beginning of year	1,224,731	678,884
End of year	\$ 1,293,943	\$ 1,224,731
Cash paid for interest	\$ -0-	\$ 5,626

See accompanying notes to consolidated financial statements.

FAIRBANKS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Fairbanks Hospital, Inc. (Fairbanks) is a not-for-profit chemical dependency treatment center which provides detoxification, addiction education, research, counseling and medical and psychiatric evaluation services and employee assistance services. Fairbanks provides its services to the citizens of Indianapolis, Indiana and surrounding communities on an inpatient and outpatient treatment basis.

Those activities directly associated with the furtherance of providing chemical dependency treatment services are considered to be operating activities. Other activities that result in gains or losses unrelated to this primary purpose are considered nonoperating. Nonoperating gains and losses include earnings on investments and contributions.

Consolidated Entity

Fairbanks is the sole member of The Recovery High School at Fairbanks d/b/a Hope Academy (the School), a 501(c)(3) corporation. As such, the financial statements of the School have been consolidated with Fairbanks' financial statements. All significant inter-entity transactions have been eliminated in consolidation.

The School was awarded a charter grant from the State of Indiana. The purpose of the School is to provide an education to students who are in recovery. Consolidating Balance Sheets and Consolidating Statements of Operations and Changes in Net Assets for the years ended June 30, 2012 and 2011 are included in the Supplementary Information.

Use of Estimates

The preparation of consolidated financial statements in conformity with the accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

FAIRBANKS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Cash Equivalents

Cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less.

Patient Accounts Receivable and Patient Service Revenue

Patient accounts receivable and patient service revenue are reported at the net realizable amounts due from patients, third-party payors (including insurers) and others for services rendered and include estimated retroactive revenue adjustments due to audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Management estimates an allowance for doubtful patient accounts receivable based upon an evaluation of historical losses, current economic conditions, and other factors unique to patient mix.

Charity Care and Community Benefit

Charity care is provided to patients who meet certain criteria. Charity care is provided at no charge or at amounts less than established rates and, because collection of amounts determined to qualify as charity care are not pursued, such amounts are not reported as revenue. Records are maintained to identify and monitor the level of charity care provided, including the amount of charges foregone for services and supplies furnished. In addition, other programs and services for the benefit of the community are provided. Amounts recognized as charity care as of June 30, 2012 and 2011 are approximately \$2,800,783 and \$2,508,680, respectively.

Of Fairbanks' total unrestricted operating expense reported, (approximately \$22,263,000 and \$20,403,000 during the years ended June 30, 2012 and 2011, respectively), an estimated \$1,534,495 and \$1,403,937 arose from providing services to charity patients during the years ended June 30, 2012 and 2011, respectively.

The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on Fairbanks' total expenses (less bad debt expense) divided by gross patient service revenue.

FAIRBANKS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Property and Equipment

Property and equipment are recorded at cost, or if donated, at fair market value at date of donation. Depreciation is provided using the straight-line method over the expected useful lives, ranging from 5 – 40 years, of the various asset classifications.

Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unrestricted contributions are recorded as nonoperating income. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets.

Assets Limited as to Use

Assets limited as to use primarily include assets designated by the Board of Directors for specific purposes, including charity, and those which are donor restricted. Those assets consist of money market and certificate of deposit funds.

Temporarily Restricted Net Assets

Temporarily restricted net assets which are those assets whose use has been limited by donors for a specific operating or capital purpose. When a donor restriction is met or expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported as net assets released from restrictions.

Performance Indicator

The consolidated statements of operations include a performance indicator, revenues over expenses. Consistent with industry practice, net assets released from restrictions for property and equipment and temporarily restricted net asset activity are excluded from the performance indicator.

Advertising

Fairbanks uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred.

FAIRBANKS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Income Taxes

Fairbanks and the School are not-for-profit corporations as defined by Section 501(c)(3) of the Internal Revenue Code and, accordingly, are exempt from federal and state income taxes.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Fairbanks and the School and recognize a tax liability if the Fairbanks and the School has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by Fairbanks and the School, and has concluded that as of June 30, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. Fairbanks and the School are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

As such, Fairbanks and the School are generally exempt from income taxes. However, Fairbanks and the School are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Fairbanks and the School filed their federal and state income tax returns for periods through June 30, 2011. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Medical Malpractice

Fairbanks participates in the Indiana Medical Malpractice Act, which limits the maximum recovery to \$1,250,000 per occurrence, the first \$250,000 of which would be the responsibility of Fairbanks, with the balance paid by the State of Indiana Patient Compensation Fund. Fairbanks carries an occurrence basis insurance policy covering Fairbanks \$250,000 of exposure per claim. Accordingly, Fairbanks has not recorded any provision for self-insured medical malpractice claims.

FAIRBANKS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Litigation

Fairbanks may be involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the future financial position, results of operations or cash flows of Fairbanks.

Reclassification

Certain amounts from 2011 have been reclassified to conform to the current year presentation.

Subsequent Events

Fairbanks has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued which is October 24, 2012.

2. NET PATIENT SERVICE REVENUE

Reimbursement for services provided to substantially all patients is in accordance with contractual arrangements for the Medicare and Medicaid programs, third-party insurers, preferred provider organizations (PPOs) and health maintenance organizations (HMOs). Substantially all such arrangements reimburse Fairbanks on a prospective basis or at discounts from established charges. Under the Medicare and Medicaid programs, Fairbanks is reimbursed primarily based upon prospective payment rates with any final settlements determined after submission of an annual cost report and audit thereof by the fiscal intermediaries. Medicare and Medicaid cost reports have been audited by the fiscal intermediary through June 30, 2011.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. While no such regulatory inquiries have been made, compliance with laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

FAIRBANKS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the consolidated statement of operations and changes in net assets is as follows for the years ended June 30, 2012 and 2011:

	2012	2011
Routine and ancillary services	\$ 36,340,420	\$ 33,385,616
Less charity care revenue foregone	2,800,783	2,508,680
Gross patient service revenue	33,539,637	30,876,936
Less contractual allowances	14,522,075	12,886,553
Net patient service revenue	\$ 19,017,562	\$ 17,990,383

3. LEASES

Fairbanks' main campus land and certain equipment are under operating leases expiring through May 2017. Future minimum lease payments for noncancelable operating leases with initial or remaining terms of one year or more for years ending June 30 are as follows:

2013	\$ 296,302
2014	273,512
2015	232,604
2016	232,279
2017	77,752
	\$ 1,112,449

4. LONG-TERM DEBT

Long-term debt as of June 30, 2012 and 2011 is summarized as follows:

	2012	2011
Hope Academy, Common school loan, due in semi annual payments in January and July, interest at 4% due in July 2030, repayment deferred until 2014.	\$ 74,674	\$ 74,674
	74,674	74,674
Less current portion	-0-	-0-
	\$ 74,674	\$ 74,674

FAIRBANKS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Fairbanks also has an unsecured line-of-credit which provides a maximum credit line of \$500,000 with interest at the bank's prime rate less 0.25%. There was no outstanding balance on the credit line at June 30, 2012 and 2011. The line of credit agreement expires on April 24, 2013. The credit agreement contains certain restrictive covenants, with which Fairbanks believes it is in compliance. Interest expense on long-term debt was \$2,987 and \$8,613 for the years ended June 30, 2012 and 2011, respectively.

Future principal payments on long-term debt for the years ending June 30 are as follows:

2013	\$	-0-
2014		4,267
2015		4,267
2016		4,267
2017		4,267
Thereafter		57,606
		<u>\$ 74,674</u>

The mortgage payable was paid off during 2011.

The line-of-credit arrangement is collateralized by a blanket security interest in all cash balances on deposit, accounts receivable, equipment and certain other assets of Fairbanks.

5. PENSION PLAN

A 403(b) plan provides for employees to contribute a portion of eligible salary to the Plan on a pre-tax basis, subject to the Internal Revenue Service defined limits. Discretionary contributions and matching contributions are based on the earnings and contributions of qualified employees. Pension expense was \$259,486 and \$253,994 for the years ended June 30, 2012 and 2011, respectively.

FAIRBANKS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

6. ASSETS LIMITED AS TO USE

The Board of Directors has designated certain assets for the purpose of providing charity care to patients who meet certain criteria. Internally designated funds are set aside by management to be used for capital acquisition and maintenance as well as certain operational needs including maintenance of sufficient liquidity. In addition, donors have designated certain assets for the purpose of specified program activities. These assets consist of the following at June 30:

	2012	2011
Temporarily restricted - building fund	\$ 269,243	\$ 246,595
Board designated - charity care fund	675,000	675,000
Internally designated	5,668,386	5,519,489
Total assets limited as to use	\$ 6,612,629	\$ 6,441,084

	2012	2011
Money market	\$ 4,928,701	\$ 3,844,422
Certificates of deposit	1,667,782	2,490,971
Other	16,146	105,691
Total assets limited as to use	\$ 6,612,629	\$ 6,441,084

Included in the temporarily restricted amounts as of June 30, 2012 and 2011 are unconditional pledges receivable of \$16,146 and \$105,691, respectively. The future receipts of the pledges receivable for the years ending June 30 are as follows:

2013	\$ 15,526
2014	620
Total	\$ 16,146

7. CONCENTRATIONS OF CREDIT RISK

Fairbanks is located in Indianapolis, Indiana. Fairbanks grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and gross revenues from patients and third-party payors as of June 30, 2012 and 2011 is as follows:

FAIRBANKS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

	Receivables		Revenues	
	2012	2011	2012	2011
Medicare	11%	9%	14%	14%
Medicaid	1%	1%	1%	1%
Blue Cross	25%	20%	36%	36%
Other third-party payors	35%	32%	41%	39%
Self-pay	28%	38%	8%	10%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Fairbanks maintains its cash in accounts, which at times may exceed federally insured limits. Fairbanks has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

8. FUNCTIONAL EXPENSES

Fairbanks incurred the following program services, general and administrative and fundraising expenses for the years ended June 30, 2012 and 2011:

	2012	2011
Program services	\$ 18,136,437	\$ 16,853,184
General and administrative	3,791,178	3,390,037
Fundraising	335,538	160,209
Total expenses	<u>\$ 22,263,153</u>	<u>\$ 20,403,430</u>

9. COMMITMENTS AND CONTINGENCIES

Fairbanks has construction commitments of approximately \$2.3 million which will be funded through a \$1 million donation from United Way of Central Indiana, a \$1 million donation from the Richard M. Fairbanks Foundation, Inc. and the remaining from Fairbanks reserves.

SUPPLEMENTARY INFORMATION

FAIRBANKS

CONSOLIDATING BALANCE SHEET JUNE 30, 2012

	ASSETS			
	<u>Fairbanks</u>	<u>Hope Academy</u>	<u>Eliminations</u>	<u>Total</u>
Current assets				
Cash and cash equivalents	\$ 1,214,354	\$ 79,589	\$ -0-	\$ 1,293,943
Patient accounts receivable, net	3,698,498	-0-	-0-	3,698,498
Prepaid expenses	455,170	11,603	-0-	466,773
Other current assets	501,842	152,299	(310,340)	343,801
Total current assets	<u>5,869,864</u>	<u>243,491</u>	<u>(310,340)</u>	<u>5,803,015</u>
Assets limited as to use				
Donor restricted	249,344	19,899	-0-	269,243
Board designated	675,000	-0-	-0-	675,000
Internally designated	5,668,386	-0-	-0-	5,668,386
Total assets limited as to use	<u>6,592,730</u>	<u>19,899</u>	<u>-0-</u>	<u>6,612,629</u>
Property and equipment				
Land	85,000	-0-	-0-	85,000
Land improvements	619,769	-0-	-0-	619,769
Buildings and improvements	12,709,141	-0-	-0-	12,709,141
Equipment and vehicles	5,910,119	291,135	-0-	6,201,254
Construction in progress	326,760	-0-	-0-	326,760
	<u>19,650,789</u>	<u>291,135</u>	<u>-0-</u>	<u>19,941,924</u>
Accumulated depreciation	(8,506,862)	(218,316)	-0-	(8,725,178)
Property and equipment, net	<u>11,143,927</u>	<u>72,819</u>	<u>-0-</u>	<u>11,216,746</u>
Other long-term assets				
	60,000	-0-	-0-	60,000
Total assets	<u>\$ 23,666,521</u>	<u>\$ 336,209</u>	<u>\$ (310,340)</u>	<u>\$ 23,692,390</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 355,180	\$ 338,106	\$ (310,340)	\$ 382,946
Salaries, wages and related liabilities	1,112,809	14,802	-0-	1,127,611
Estimated third party settlements	206,865	-0-	-0-	206,865
Total current liabilities	<u>1,674,854</u>	<u>352,908</u>	<u>(310,340)</u>	<u>1,717,422</u>
Long-term debt, net of current portion				
	-0-	74,674	-0-	74,674
Total liabilities	<u>1,674,854</u>	<u>427,582</u>	<u>(310,340)</u>	<u>1,792,096</u>
Net assets				
Unrestricted	21,742,323	(111,272)	-0-	21,631,051
Temporarily restricted by donors	249,344	19,899	-0-	269,243
Total net assets	<u>21,991,667</u>	<u>(91,373)</u>	<u>-0-</u>	<u>21,900,294</u>
Total liabilities and net assets	<u>\$ 23,666,521</u>	<u>\$ 336,209</u>	<u>\$ (310,340)</u>	<u>\$ 23,692,390</u>

See report of independent auditors on pages 1 and 2.

FAIRBANKS

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2012

	Fairbanks	Hope Academy	Eliminations	Total
Unrestricted operating revenue				
Net patient service revenue	\$ 19,017,562	\$ -0-	\$ -0-	\$ 19,017,562
Other operating revenue	2,509,216	420,810	(144,600)	2,785,426
Net assets released from restrictions for operations	<u>252,682</u>	<u>229,703</u>	<u>-0-</u>	<u>482,385</u>
Total operating revenue	21,779,460	650,513	(144,600)	22,285,373
Operating expenses				
Salaries and benefits	13,210,836	487,190	-0-	13,698,026
Medical supplies and drugs	951,993	-0-	-0-	951,993
Fiscal and administrative	898,934	65,146	-0-	964,080
Food	271,011	4,354	-0-	275,365
Purchased services	1,111,900	268,764	-0-	1,380,664
Utilities and telephone	352,070	-0-	-0-	352,070
Maintenance and service	196,368	-0-	-0-	196,368
Advertising	391,343	1,250	-0-	392,593
Depreciation	877,941	31,708	-0-	909,649
Bad debts	2,352,937	-0-	-0-	2,352,937
Insurance	223,168	14,971	-0-	238,139
Rent	<u>546,718</u>	<u>149,151</u>	<u>(144,600)</u>	<u>551,269</u>
Total operating expenses	<u>21,385,219</u>	<u>1,022,534</u>	<u>(144,600)</u>	<u>22,263,153</u>
Operating income (loss)	394,241	(372,021)	-0-	22,220
Nonoperating revenue				
Contributions	38,923	100,764	-0-	139,687
Interest Income	<u>22,896</u>	<u>92</u>	<u>-0-</u>	<u>22,988</u>
Total nonoperating revenue	<u>61,819</u>	<u>100,856</u>	<u>-0-</u>	<u>162,675</u>
Revenue over expenses	456,060	(271,165)	-0-	184,895
Other changes in net assets				
Net assets released from restrictions for property and equipment	137,421	-0-	-0-	137,421
Net asset transfer	<u>(270,827)</u>	<u>270,827</u>	<u>-0-</u>	<u>-0-</u>
Change in unrestricted net assets	322,654	(338)	-0-	322,316
Temporarily restricted net assets				
Interest income from investments	429	-0-	-0-	429
Donations and pledges	440,636	201,389	-0-	642,025
Net assets released from restrictions for operations	(252,682)	(229,703)	-0-	(482,385)
Net assets released from restrictions for property and equipment	<u>(137,421)</u>	<u>-0-</u>	<u>-0-</u>	<u>(137,421)</u>
Change in temporarily restricted net assets	<u>50,962</u>	<u>(28,314)</u>	<u>-0-</u>	<u>22,648</u>
Change in net assets	373,616	(28,652)	-0-	344,964
Net assets				
Beginning of year	21,618,051	(62,721)	-0-	21,555,330
End of year	<u>\$ 21,991,667</u>	<u>\$ (91,373)</u>	<u>\$ -0-</u>	<u>\$ 21,900,294</u>

See report of independent auditors on pages 1 and 2.

FAIRBANKS

CONSOLIDATING BALANCE SHEET JUNE 30, 2011

	ASSETS			
	<u>Fairbanks</u>	<u>Hope Academy</u>	<u>Eliminations</u>	<u>Total</u>
Current assets				
Cash and cash equivalents	\$ 1,218,361	\$ 6,370	\$ -0-	\$ 1,224,731
Patient accounts receivable, net	3,280,865	-0-	-0-	3,280,865
Prepaid expenses	390,638	9,069	-0-	399,707
Other current assets	<u>498,324</u>	<u>132,288</u>	<u>(274,334)</u>	<u>356,278</u>
Total current assets	5,388,188	147,727	(274,334)	5,261,581
Assets limited as to use				
Donor restricted	198,382	48,213	-0-	246,595
Board designated	675,000	-0-	-0-	675,000
Internally designated	<u>5,519,489</u>	<u>-0-</u>	<u>-0-</u>	<u>5,519,489</u>
Total assets limited as to use	6,392,871	48,213	-0-	6,441,084
Property and equipment				
Land	85,000	-0-	-0-	85,000
Land improvements	520,017	-0-	-0-	520,017
Buildings and improvements	12,653,276	-0-	-0-	12,653,276
Equipment and vehicles	5,652,213	287,900	-0-	5,940,113
Construction in progress	<u>236,855</u>	<u>-0-</u>	<u>-0-</u>	<u>236,855</u>
	19,147,361	287,900	-0-	19,435,261
Accumulated depreciation	<u>(7,628,738)</u>	<u>(186,608)</u>	<u>-0-</u>	<u>(7,815,346)</u>
Property and equipment, net	11,518,623	101,292	-0-	11,619,915
Other long-term assets				
	<u>60,000</u>	<u>-0-</u>	<u>-0-</u>	<u>60,000</u>
Total assets	<u>\$ 23,359,682</u>	<u>\$ 297,232</u>	<u>\$ (274,334)</u>	<u>\$ 23,382,580</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 350,291	274,517	\$ (274,334)	\$ 350,474
Salaries, wages and related liabilities	1,197,645	10,762	-0-	1,208,407
Estimated third party settlements	193,695	-0-	-0-	193,695
Current portion of long-term debt	-0-	-0-	-0-	-0-
Total current liabilities	<u>1,741,631</u>	<u>285,279</u>	<u>(274,334)</u>	<u>1,752,576</u>
Long-term debt, net of current portion				
	<u>-0-</u>	<u>74,674</u>	<u>-0-</u>	<u>74,674</u>
Total liabilities	1,741,631	359,953	(274,334)	1,827,250
Net assets				
Unrestricted	21,419,669	(110,934)	-0-	21,308,735
Temporarily restricted by donors	<u>198,382</u>	<u>48,213</u>	<u>-0-</u>	<u>246,595</u>
Total net assets	<u>21,618,051</u>	<u>(62,721)</u>	<u>-0-</u>	<u>21,555,330</u>
Total liabilities and net assets	<u>\$ 23,359,682</u>	<u>\$ 297,232</u>	<u>\$ (274,334)</u>	<u>\$ 23,382,580</u>

See report of independent auditors on pages 1 and 2.

FAIRBANKS

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2011

	Fairbanks	Hope Academy	Eliminations	Total
Operating revenue				
Net patient service revenue	\$ 17,990,383	\$ -0-	\$ -0-	\$ 17,990,383
Other operating revenue	2,597,029	503,765	(144,600)	2,956,194
Net assets released from restrictions for operations	349,589	-0-	-0-	349,589
Total operating revenue	20,937,001	503,765	(144,600)	21,296,166
Operating expenses				
Salaries and benefits	12,474,872	426,830	-0-	12,901,702
Medical supplies and drugs	746,323	-0-	-0-	746,323
Fiscal and administrative	898,657	46,564	-0-	945,221
Food	389,107	4,638	-0-	393,745
Purchased services	988,006	234,264	-0-	1,222,270
Utilities and telephone	335,195	-0-	-0-	335,195
Maintenance and service	213,356	-0-	-0-	213,356
Advertising	367,082	1,711	-0-	368,793
Depreciation	783,682	40,168	-0-	823,850
Bad debts	1,719,780	-0-	-0-	1,719,780
Insurance	218,100	17,009	-0-	235,109
Rent	493,434	149,252	(144,600)	498,086
Total operating expenses	19,627,594	920,436	(144,600)	20,403,430
Operating income (loss)	1,309,407	(416,671)	-0-	892,736
Nonoperating revenue				
Contributions	129,656	25,541	-0-	155,197
Interest income	46,266	86	-0-	46,352
Total nonoperating revenue	175,922	25,627	-0-	201,549
Revenues over expenses	1,485,329	(391,044)	-0-	1,094,285
Other changes in net assets				
Net assets released from restrictions for property and equipment	62,640	-0-	-0-	62,640
Net asset transfer	(259,423)	259,423	-0-	-0-
Change in unrestricted net assets	1,288,546	(131,621)	-0-	1,156,925
Change in temporarily restricted net assets				
Interest income from investments	1,854	-0-	-0-	1,854
Donations and pledges	326,777	47,120	-0-	373,897
Net assets released from restrictions for operations	(349,589)	-0-	-0-	(349,589)
Net assets released from restrictions for property and equipment	(62,640)	-0-	-0-	(62,640)
Change in temporarily restricted net assets	(83,598)	47,120	-0-	(36,478)
Change in net assets	1,204,948	(84,501)	-0-	1,120,447
Net assets, beginning of year	20,413,103	21,780	-0-	20,434,883
Net assets, end of year	\$ 21,618,051	\$ (62,721)	\$ -0-	\$ 21,555,330

See report of independent auditors on pages 1 and 2.

FAIRBANKS

SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS YEAR ENDED JUNE 30, 2012

<u>Grantor</u>	<u>Grant ID #</u>	<u>Expenditures</u>
State		
Indiana Family and Social Services Administration	B24-0-49-10-HI-1817	\$ 243,712
Indiana Department of Corrections	POM9340231 and POM9340727	<u>107,326</u>
Total state awards		<u>\$ 351,038</u>

Basis of Presentation - The accompanying schedule of state and local awards for the year ended June 30, 2012 includes the state and local awards activity of Fairbanks and is presented on the accrual basis of accounting. The consolidated financial statements classifications may include other financial activity for reporting purposes. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.



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SINGLE AUDIT REPORTING

AND

REQUIRED SCHEDULES

JUNE 30, 2012



FAIRBANKS

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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Directors
Fairbanks Hospital, Inc.
Indianapolis, Indiana

We have audited the consolidated financial statements of Fairbanks Hospital Inc. (Fairbanks) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources issued by the Indiana State Board of Accounts.

Internal Control Over Financial Reporting

Management of Fairbanks is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered Fairbanks' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fairbanks' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Fairbanks' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Board of Directors
Fairbanks Hospital, Inc.
Indianapolis, Indiana

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fairbanks' consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Fairbanks in a separate letter dated October 24, 2012.

This report is intended solely for the information and use of the Board of Directors, management, others within Fairbanks, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

October 24, 2012



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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133 AND SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS

Board of Directors
Fairbanks Hospital, Inc.
Indianapolis, Indiana

Compliance

We have audited Fairbanks Hospital, Inc. (Fairbanks) compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Fairbanks' major federal programs for the year ended June 30, 2012. Fairbanks' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Fairbanks' management. Our responsibility is to express an opinion on Fairbanks' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fairbanks' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Fairbanks' compliance with those requirements.

In our opinion, Fairbanks complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Board of Directors
Fairbanks Hospital, Inc.
Indianapolis, Indiana

Internal Control Over Compliance

Management of Fairbanks is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Fairbanks' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Fairbanks' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Board of Directors
Fairbanks Hospital, Inc.
Indianapolis, Indiana

Schedule of Expenditures of Federal Awards

We have audited the consolidated financial statements of Fairbanks as of and for the year ended June 30, 2012, and have issued our report thereon dated October 24, 2012, which contained an unqualified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

This report is intended solely for the information and use of the Board of Directors, management, others within Fairbanks, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

October 24, 2012

FAIRBANKS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2012

Section I - Summary of Audit Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are
not considered to be material weakness(es)? yes none noted

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal controls over major programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are
not considered to be material weakness(es)? yes none noted

Type of auditor's report issued on compliance for
major programs: Unqualified

Any audit findings disclosed that are required to be
reported in accordance with section 510(a) of
Circular A-133? yes no

Identification of major program:

CFDA Number
93.275

Name of Federal Program or Cluster
Substance Abuse and Mental Health
Services Access to Recovery

Dollar threshold used to distinguish between
type A and B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

Section II - Financial Statement Findings

No matters reported.

Section III - Financial Award Findings and Questioned Costs

No matters reported.

Section IV - Summary Schedule of Prior Year Audit Findings

No matters reported.

FAIRBANKS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2012

Program Title	Federal Grantor/Pass-through Entity	CFDA Number	Grant Identification #	Federal Expenditures
Major programs				
Substance Abuse and Mental Health Services Access to Recovery	Department of Health and Human Services/ Indiana Family and Social Services Administration	93.275	49-11-AR-1817	<u>356,560</u>
Total major programs				356,560
Non-Major programs				
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	Department of Justice/ Marion County Community Corrections	16.804	POM9340727	131,754
Edward Byrne Memorial Justice Assistance Grant Program	Department of Justice/ Marion County Community Corrections	16.738	POM9340231	<u>45,612</u>
Total non-major programs				<u>177,366</u>
Total federal awards				<u>\$ 533,926</u>

Basis of Presentation – The accompanying schedule of expenditures of federal awards for the year ended June 30, 2012 includes the federal grant activity of Fairbanks and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.