

**NARCO FREEDOM, INC.
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2012**

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DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Narco Freedom, Inc.
Bronx, New York

We have audited the accompanying financial statements of Narco Freedom, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Narco Freedom, Inc. as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2013, on our consideration of Narco Freedom, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* in considering Narco Freedom, Inc.'s internal control over financial reporting and compliance.


Rosenblatt, Levittan, Vulpis, Goetz & Co. LLP
New Hyde Park, New York

August 7, 2013

NARCO FREEDOM, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012

ASSETS

CURRENT ASSETS	
Cash	\$ 7,544,923
Receivables	
Patient Services, Medicaid	3,239,140
Grants and Contracts (Note 4)	261,765
Insurance Claims	446,147
Other	472,878
Prepaid Expenses	<u>934,114</u>
 Total Current Assets	 12,898,967
 PROPERTY AND EQUIPMENT, Net (Note 5)	 7,151,029
 OTHER ASSETS	
Security Deposits	<u>284,033</u>
 Total Assets	 <u>\$ 20,334,029</u>

LIABILITIES AND UNRESTRICTED NET ASSETS

CURRENT LIABILITIES	
Current Portion of Long-Term Debt (Note 6)	\$ 167,766
Accounts Payable and Accrued Expenses	611,023
Accrued Compensation (Note 7)	2,861,783
Refundable Advances	<u>39,146</u>
 Total Current Liabilities	 3,679,718
 LONG-TERM LIABILITIES	
Long-Term Debt, Less Current Maturities (Note 6)	<u>1,997,932</u>
 Total Liabilities	 5,677,650
 COMMITMENTS AND CONTINGENCIES (Note 12)	
 UNRESTRICTED NET ASSETS	 <u>14,656,379</u>
 Total Liabilities and Unrestricted Net Assets	 <u>\$ 20,334,029</u>

See auditor's report and accompanying notes.

NARCO FREEDOM, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

UNRESTRICTED REVENUE	
Patient Services, Net (Note 8)	\$ 36,434,989
Grants and Contracts (Note 9)	6,773,189
Rental Income	383,787
Other Income	363,911
Interest	<u>72</u>
Total Unrestricted Revenue	<u>43,955,948</u>
EXPENSES	
Program Services	44,425,410
Management and General	<u>5,213,226</u>
Total Expenses	<u>49,638,636</u>
Operating Loss Before Depreciation and Amortization	(5,682,688)
Depreciation and Amortization	<u>460,472</u>
Decrease in Unrestricted Net Assets	(6,143,160)
Unrestricted Net Assets at Beginning of Year, As Previously Reported	20,245,346
Adjustment for the Understatement of Unrestricted Net Assets Previously Reported, as More Fully Described in Note 11	<u>554,193</u>
Unrestricted Net Assets at End of Year	<u>\$ 14,656,379</u>

See auditor's report and accompanying notes.

NARCO FREEDOM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and Wages	\$ 17,427,719	\$ 2,707,600	\$ 20,135,319
Fringe Benefits	4,155,812	673,758	4,829,570
Rent	5,564,993	273,035	5,838,028
Repairs and Maintenance	5,434,426	47,338	5,481,764
Contractual Services	2,166,891	642,991	2,809,882
Telephone and Utilities	2,090,939	59,804	2,150,743
Security	1,325,894	19,896	1,345,790
Office and Maintenance Supplies	898,834	43,360	942,194
Equipment Rental	571,698	13,166	584,864
Laboratory Fees	780,310	-	780,310
Medical Supplies	756,479	-	756,479
Professional Fees	157,042	574,632	731,674
Medical Consultants	1,095,627	-	1,095,627
Patient Food and Other Expenses	501,309	-	501,309
Insurance	463,485	127,719	591,204
Travel, Conferences, and Meetings	222,395	18,441	240,836
Computer Billing and Costs	229,883	-	229,883
Bank Charges and Interest	155,397	-	155,397
Immunizations	146,832	-	146,832
Data Processing	61,275	5,532	66,807
Medical Waste	66,067	-	66,067
Education, Training, and Recruiting	52,511	-	52,511
Licenses, Permits, and Assessments	44,283	1,632	45,915
Dues and Subscriptions	37,236	2,054	39,290
Miscellaneous Expenses	18,073	2,268	20,341
	<u>\$ 44,425,410</u>	<u>\$ 5,213,226</u>	<u>\$ 49,638,636</u>

See auditor's report and accompanying notes.

NARCO FREEDOM, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Patient Services	\$ 39,576,505
Cash Received from Contractual Services	6,741,908
Interest Received	72
Cash Received from Rents	383,787
Cash Received from Insurance Proceeds	529,556
Cash Paid for Operations	<u>(47,598,786)</u>
Net Cash Used in Operating Activities	<u>(366,958)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of Property and Equipment	(29,335)
Increase in Security Deposits	<u>(45,300)</u>
Net Cash Used in Investing Activities	<u>(74,635)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal Payments of Long-Term Debt	<u>(165,741)</u>
Net Decrease in Cash	(607,334)
Cash - Beginning, as Restated (See Note 13)	<u>8,152,257</u>
Cash - Ending	<u>\$ 7,544,923</u>
RECONCILIATION OF NET CASH USED IN OPERATING ACTIVITIES	
Decrease in Net Assets	<u>\$ (6,143,160)</u>
ADJUSTMENTS TO RECONCILE DECREASE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:	
Depreciation and Amortization	460,472
Changes in Assets and Liabilities:	
Decrease in Patient Accounts Receivable	5,416,610
Increase in Grants Receivable	(70,427)
Increase in Insurance Claims Receivable	(446,147)
Increase in Other Receivables	(121,084)
Increase in Prepaid Expenses	(492,319)
Increase in Accounts Payable and Accrued Expenses	911,681
Increase in Accrued Compensation	78,270
Increase in Refundable Advances	<u>39,146</u>
Total Adjustments	<u>5,776,202</u>
Net Cash Used in Operating Activities	<u>\$ (366,958)</u>

See auditor's report and accompanying notes.

NARCO FREEDOM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 - ORGANIZATION

Narco Freedom, Inc. (the "Organization") began its operations in 1971 to provide care to chemically dependent residents through their health care facilities in the South Bronx area of New York City. The Organization has expanded its services after its beginnings as a methadone treatment center to include several modalities of chemical dependency treatment, primary medical care, and social support services. In 1996, the Organization began expansion programs that brought its services to the New York City boroughs of Brooklyn and Queens. In 2012, approximately 83% of the Organization's revenue was received from Medicaid.

NOTE 2 - DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 7, 2013, the date the financial statements were available to be issued.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Organization classifies its net assets into three categories, which are unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets are reflective of revenues and expenses associated with the principal operating activities of the Organization and are not subject to donor-imposed stipulations.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or may not be met either by actions of the Organization and/or passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as restricted are reported as unrestricted contributions in the financial statements. There were no temporarily restricted net assets at December 31, 2012.

Permanently restricted net assets are subject to donor-imposed stipulations that must be maintained permanently by the Organization. There were no permanently restricted net assets at December 31, 2012.

Patient Services Receivable

The Organization considers patient accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. All patient services receivable are due from Medicaid.

NARCO FREEDOM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and Contracts Receivable

Grants receivable consists of costs under the grant agreement or contract which were incurred prior to year-end for which payment has not been received.

Property and Equipment

The Organization capitalizes all property and equipment expenditures with a cost of \$5,000 or more and having estimated useful lives of more than one year. Property and equipment are recorded at cost or, for donated items, at fair value as of the date received. Expenditures for major additions and improvement are capitalized and minor replacements, maintenance and repairs are charged to expense when incurred.

When property and equipment are retired or otherwise disposed of, the cost of the accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is included in the activities for the respective period. Depreciation and amortization is computed using the straight-line method over the useful lives of the respective related assets ranging from 3 to 39 years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the estimated useful lives of the respective assets or the lease term.

Long-lived assets, such as property and equipment, are reviewed on an ongoing basis for impairment based on comparison of carrying value against undiscounted future cash flows. If impairment is identified, the assets' carrying amounts are adjusted to fair value. There were no such adjustments during the year ended December 31, 2012.

Revenue Recognition

The Organization has agreements with third-party payors that provide payments to the Organization at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, and includes retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administrating agencies.

Revenues from government grants and contracts are recorded as revenue in the fiscal period for which the grant or contract is earned.

Self-pay revenues are recorded at published charges with contractual and charitable allowances and provisions for doubtful accounts deducted to arrive at net self-pay revenues.

Interest Income

Interest earned on federal funds is recorded on the accrual basis of accounting and classified as a liability to the Public Health Service in compliance with OMB Circular A-110. For the year ended December 31, 2012, no interest on federal funds was received by the Organization.

NARCO FREEDOM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and Contracts Revenue

Grants and contracts are recognized as revenue when earned. Expense-based grants and contracts are recognized as revenue when the qualifying expenses have been incurred and all other grants and contracts requirements have been met.

Grants and contracts funds received prior to the incurrence of the qualifying expenses are deferred as refundable advances.

Tax Status

The Organization was incorporated as a not-for-profit corporation under the laws of the State of New York and is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes. In addition, the Organization is not classified as a private foundation.

The Organization's federal, state, and local income tax returns are subject to examination by the IRS, and all the other jurisdictions in which it files, generally for three to six years after the returns are filed. The Organization believes it is "more likely than not" that each of its tax positions will be sustained upon IRS, or other applicable tax authority examination (i.e., that there is a greater than 50% chance of realization of each after examination). Accordingly, no liability for unrecognized tax benefits has been recorded on the statement of financial position.

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires the Organization's management to use estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates. The use of estimates in the preparation of the accompanying financial statements is primarily related to the determination of patient services receivable.

Donated Services

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, the Board of Directors volunteer their time and perform a variety of tasks and services that assist the Organization with specific assistance programs and various other projects.

Functional Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on allocations determined by management upon specific methodologies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

NARCO FREEDOM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

FASB (Financial Accounting Standards Board) ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value. At December 31, 2012, the Organization's financial instruments all approximate fair value and consist of cash, receivable, accounts payable and accrued expenses, and long-term debt.

NOTE 4 - GRANTS RECEIVABLE

As of December 31, 2012, grants receivable consists of the following:

U.S. Department of Health & Human Services: Early Intervention Services with respect to HIV Disease	\$ 217,453
NYS Department of Corrections and Community Supervision Board of Parole Housing Assistance Program	<u>44,312</u>
	<u>\$ 261,765</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2012:

Land	\$ 580,264
Building	3,070,554
Leasehold Improvements	6,543,588
Equipment and Furniture	117,422
Closing Costs	<u>67,011</u>
	10,378,839
Less Accumulated Depreciation and Amortization	<u>3,227,810</u>
	<u>\$ 7,151,029</u>

Depreciation and amortization expense for the year ended December 31, 2012 was \$460,472.

NARCO FREEDOM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 5 - PROPERTY AND EQUIPMENT (Continued)

For the year ended December 31, 2012, the Organization retired fully depreciated or amortized assets totaling \$1,830,538. The amount consisted of equipment and furniture totaling \$580,176, leasehold improvements totaling \$250,362, and client lists totaling \$1,000,000.

NOTE 6 - LONG-TERM DEBT

Long-term debt at December 31, 2012 consists of the following:

Note payable to Bank of America in monthly installments of \$11,111, plus interest of LIBOR plus 1.5%, due in May 2014, secured by a building at 561 Court Street, Brooklyn, NY	\$ 855,556
Mortgage payable to Carver Federal Savings Bank payable in monthly installments of \$10,602, including interest at 7%, due in April 2031, secured by a building at 2640 3 rd Avenue, Bronx, NY	<u>1,310,142</u>
	<u>2,165,698</u>
Less: Current Maturities	<u>167,766</u>
	<u>\$ 1,997,932</u>

Long-term debt matures as follows:

Years ending December 31,	
2013	\$ 167,766
2014	758,208
2015	37,532
2016	39,080
2017	40,630
Thereafter	<u>1,112,482</u>
	<u>\$ 2,165,698</u>

NOTE 7 - ACCRUED COMPENSATION

Employees of the Organization are entitled to paid vacation, paid sick and personal days off, depending on job classification, length of service, and other factors. Accrued but unused vacation, sick and personal leave in the amount of \$2,486,809 is included in accrued compensation on the Statement of Financial Position at December 31, 2012.

NARCO FREEDOM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 8 - PATIENT SERVICES, NET

For the year ended December 31, 2012, patient services revenue consists of the following:

Medicaid	\$ 34,152,025
Medicaid Managed Care	102,495
Medicare	110,981
Self-Pay	541,428
Third Party	<u>1,528,060</u>
	<u>\$ 36,434,989</u>

Medicaid and Medicare reimburse the Organization at the net reimbursement rate as determined by Medicaid and Medicare. Reimbursement rates are subject to revisions under the provisions of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

NOTE 9 – GRANTS AND CONTRACTS

For the year ended December 31, 2012, grant revenue and contract services consists of the following:

U.S. Department of Health & Human Services:	
Outpatient Early Intervention Services with Respect to HIV Disease	\$ 788,836
Passed though Research Foundation for Mental Hygiene, Inc.: Treatment Studies Using Depot Naltrexone	3,326
NYC Department of Health and Mental Hygiene: Immunization Grants for Children	146,832
NYS Office of Alcoholism & Substance Abuse Services:	
Regenerations	730,014
Scatter Site	307,674
NYC Human Resources Administration: Through Arbor E&T, LLC	4,752,195
NYS Department of Corrections and Community Supervision Board of Parole: Housing Assistance Program	<u>44,312</u>
	<u>\$ 6,773,189</u>

NOTE 10 - RETIREMENT PLAN

The Organization participates in a 403(b) retirement plan for its employees who have worked or are expected to work at least 1,000 hours during the plan year. Employees may enter the plan upon employment with the Organization. Employees may contribute a percentage of their salary to the plan subject to IRS limits set forth in Code Section 402(g)(1)(B). Since the retirement plan has not been established or maintained by the Organization under section 3(2) of ERISA and DOL Regulation 2510.3-2(f), they are not permitted to make contributions to employee accounts.

NARCO FREEDOM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 11 - CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances at several financial institutions located in New York. Interest-bearing accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. For noninterest-bearing accounts, the FDIC provides for unlimited coverage up until December 31, 2012. At December 31, 2012, the Organization's interest-bearing cash balances did not exceed the FDIC limit.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Organization leases its office and clinic space and equipment under non-cancelable operating leases. These leases expire on various dates through February 2033. The following is a schedule of future minimum lease payments required under these non-cancelable operating leases:

Years Ending December 31,	
2013	\$ 6,023,372
2014	5,000,474
2015	4,271,473
2016	3,398,527
2017	2,780,951
Thereafter	<u>14,513,023</u>
	<u>\$ 35,987,820</u>

The Organization also leases several other spaces on a month-to-month basis. Total rent expense for the year ended December 31, 2012 totaled \$5,838,028, which includes month-to-month leases and property taxes.

Contingencies

Contracted Services

The Organization has contracted with other agencies to perform certain healthcare services and receives Medicaid and Medicare revenue from the State of New York. Reimbursements received under these contracts and payments under Medicaid and Medicare are subject to audit by state and federal governments and agencies. Upon audit, if discrepancies are discovered, the Organization could be held responsible for refunding the amounts in question.

NARCO FREEDOM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 12 - COMMITMENTS AND CONTINGENCIES (continued)

Malpractice Risk

The Organization is deemed an employee of the federal government for purposes of malpractice protection and is thus covered under the Federal Tort Claims Act ("FTCA"). The FTCA provides malpractice coverage to eligible PHS supported programs and applies to the Organization and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage. The Organization maintains gap insurance for claims that are not covered by the FTCA.

Regulatory Investigation

The health care industry is subject to voluminous and complex laws and regulations of federal, state, and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws, and false claims prohibitions. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulations by healthcare providers.

In January 2013, the Organization received a letter from the Office of the United States Attorney for the Southern District of New York ("USAO") advising that the USAO is investigating whether at any time during the period from 2002 through present, the Organization submitted false billings to Medicaid, Medicare, and other Government Health Programs. However, as of the date of the audit report the USAO has not requested a demand for any of the Organization's records or documents for the period stated in the USAO letter.

NOTE 13 - PRIOR PERIOD ADJUSTMENTS

Certain adjustments were made to previously reported cash balances, accounts payable and accrued expenses, and other receivables during the current year. Accordingly, an adjustment of \$83,488 was recorded to cash to reverse old outstanding checks, an adjustment of \$615,207 was recorded to accounts payable and accrued expenses to write-off old or erroneous balances, and an adjustment of \$144,502 was recorded to write-off old uncollectible miscellaneous receivables. Corresponding entries were made to increase net assets by \$554,193.

NARCO FREEDOM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 14 - DECREASE IN NET ASSETS

The Organization realized a decrease in net assets of \$6,143,160 in 2012. This was mainly caused by the implementation of Ambulatory Patient Groups for Article 28 facilities. The downward effect on reimbursement rates caused a substantial drop in patient revenue. Management has cut costs in virtually all programs and has significantly increased the volume of patients in these programs to make up for the lost revenue. Management has seen a vast improvement in 2013 and does not expect similar losses in the future.

SUPPLEMENTARY INFORMATION

NARCO FREEDOM, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2012

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	AGENCY OR PASS-THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES
U.S. Department of Health and Human Services:			
Direct Program:			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease*	93.918	N/A	\$ 788,836
Passed Through NYC Department of Health and Mental Hygiene:			
Immunization Grants for Children	93.268	Not Available	<u>146,832</u>
Total Federal Awards - U.S Department of Health and Human Services			<u>\$ 935,668</u>

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Narco Freedom, Inc. under programs of the federal government for the year ended December 31, 2012. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, and Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Narco Freedom, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Narco Freedom, Inc.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity indentifying numbers are presented where available.

NOTE 3 - SUBRECIPIENTS

Of the federal expenditures presented in this schedule, Narco Freedom, Inc. provided no federal awards to subrecipients.

* Denotes major programs

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Harvey Levine
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INDEPENDENT AUDITOR'S REPORT 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

The Board of Directors
Narco Freedom, Inc.
Bronx, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Narco Freedom, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 7, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Narco Freedom, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Narco Freedom Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Narco Freedom, Inc.'s financial statements are free from 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 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Rosenblatt, Levittan, Vulpis, Goetz & Co. LLP
New Hyde Park, New York

August 7, 2013

ROSENBLATT, LEVITTAN, VULPIS, GOETZ & CO. LLP

CERTIFIED PUBLIC ACCOUNTANTS/

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Board of Directors
Narco Freedom, Inc.
Bronx, New York

Report on Compliance for Each Major Federal Program

We have audited Narco Freedom, Inc.'s 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 Narco Freedom, Inc.'s major federal programs for the year ended December 31, 2012. Narco Freedom, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Narco Freedom, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 Narco Freedom, Inc.'s 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Narco Freedom, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Narco Freedom, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Narco Freedom, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Narco Freedom, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Narco Freedom, Inc.'s 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 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Rosenblatt, Levittan, Vulpis, Goetz & Co. LLP
New Hyde Park, New York

August 7, 2013

NARCO FREEDOM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2012

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of auditors' 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?	No

Identification of major program(s):

CFDA Number

93.918

Name of Federal Program

U.S. Department of Health and Human Services:
 Grants to Provide Outpatient Early Intervention
 Services with Respect to HIV Disease

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**NARCO FREEDOM, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2012**

STATUS OF PRIOR AUDIT FINDINGS

There were no prior year findings.