



**ADDICTION RESEARCH AND TREATMENT CORPORATION AND SUBSIDIARY**

**Consolidating Financial Statements**

**December 31, 2012 and 2011**

**With Independent Auditors' Reports**

**Addiction Research and Treatment Corporation and Subsidiary**  
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**December 31, 2012 and 2011**

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**Addiction Research and Treatment Corporation and Subsidiary**  
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WithumSmith+Brown, PC  
A Professional Corporation  
Certified Public Accountants and Consultants

One Spring Street  
New Brunswick, NJ 08901  
732.828.1614 fax 732.828.5156  
[www.withum.com](http://www.withum.com)

Additional Offices in New Jersey, New York,  
Pennsylvania, Maryland, Colorado and Florida

## Independent Auditors' Report

To the Board of Trustees,  
Addiction Research and Treatment Corporation:

We have audited the accompanying consolidating statements of financial position of Addiction Research and Treatment Corporation and Subsidiary, which comprise the consolidating balance sheets as of December 31, 2012 and 2011 and the related consolidating statements of activities, changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the consolidating financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating 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 consolidating financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidating financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidating 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 consolidating 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 consolidating 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 consolidating financial statements referred to above present fairly, in all material respects, the financial position of Addiction Research and Treatment Corporation and Subsidiary as of December 31, 2012 and 2011, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*William Smith + Brown, PC*

April 2, 2013



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## Independent Auditors' Report

To the Board of Trustees,  
Addiction Research and Treatment Corporation:

### Report on the Financial Statements

We have audited the accompanying consolidating statements of financial position of Addiction Research and Treatment Corporation and Subsidiary, which comprise the consolidating statements of financial position as of December 31, 2012 and 2011 and the related consolidating statements of activities, changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the consolidating financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidating financial statements based on our audits. We conducted our audits 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 of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidating 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 consolidating 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 consolidating 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 consolidating financial statements referred to above present fairly, in all material respects, the financial position of Addiction Research and Treatment Corporation and Subsidiary as of December 31, 2012 and 2011, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Supplemental Information**

Our audit was conducted for the purpose of forming an opinion on the consolidating financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 consolidating 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 consolidating financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidating financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating financial statements or to the consolidating financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidating financial statements as a whole.

### **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2013 on our consideration of Addiction Research and Treatment Corporation and Subsidiary'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 an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in blue ink that reads "Withersmith &amp; Brown, PC". The signature is written in a cursive, flowing style.

April 2, 2013

**Addiction Research and Treatment Corporation and Subsidiary**  
**Consolidating Statements of Financial Position**  
**December 31, 2012**

	<u>Addiction Research and Treatment Corporation</u>	<u>Affiliated Services and Resources Corporation</u>	<u>Eliminations</u>	<u>Total</u>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 7,717,179	\$ 201,923	\$ --	\$ 7,919,102
Due from funding agencies	501,090	--	--	501,090
Medicaid Title XIX receivable, net of allowance for doubtful accounts of \$-0-	1,812,547	--	--	1,812,547
Other current assets	38,997	--	--	38,997
Total current assets	<u>10,069,813</u>	<u>201,923</u>	<u>--</u>	<u>10,271,736</u>
Property and equipment				
Construction in progress	1,853,107	--	--	1,853,107
Land	392,208	148,382	--	540,590
Building	1,811,912	505,380	--	2,317,292
Renovations and building improvements	10,859,276	--	--	10,859,276
Furniture, fixtures and equipment	6,254,616	8,099	--	6,262,715
Automotive equipment	220,643	41,107	--	261,750
	<u>21,391,762</u>	<u>702,968</u>	<u>--</u>	<u>22,094,730</u>
Less: Accumulated depreciation	13,835,512	445,246	--	14,280,758
Property and equipment, net	<u>7,556,250</u>	<u>257,722</u>	<u>--</u>	<u>7,813,972</u>
Other assets				
Due from affiliates	154,911	--	(154,911)	--
Other assets	5,540	--	--	5,540
Total other assets	<u>160,451</u>	<u>--</u>	<u>(154,911)</u>	<u>5,540</u>
	<u>\$ 17,786,514</u>	<u>\$ 459,645</u>	<u>\$ (154,911)</u>	<u>\$ 18,091,248</u>
<b>Liabilities and Net Assets</b>				
Current liabilities				
Due to funding agencies	\$ 3,588,499	\$ --	\$ --	\$ 3,588,499
Accounts payable and accrued expenses	2,546,032	--	--	2,546,032
Other current liabilities	86,590	5,200	--	91,790
Total current liabilities	<u>6,221,121</u>	<u>5,200</u>	<u>--</u>	<u>6,226,321</u>
Due to affiliates	--	197,126	(154,911)	42,215
Total liabilities	<u>6,221,121</u>	<u>202,326</u>	<u>(154,911)</u>	<u>6,268,536</u>
Unrestricted net assets				
Operating	4,009,143	257,319	--	4,266,462
Property and equipment	7,556,250	--	--	7,556,250
Total unrestricted net assets	<u>11,565,393</u>	<u>257,319</u>	<u>--</u>	<u>11,822,712</u>
	<u>\$ 17,786,514</u>	<u>\$ 459,645</u>	<u>\$ (154,911)</u>	<u>\$ 18,091,248</u>

The Notes to Consolidating Financial Statements are an integral part of this statement.



**Addiction Research and Treatment Corporation and Subsidiary**  
**Consolidating Statements of Financial Position**  
**December 31, 2011**

	<b>Addiction Research and Treatment Corporation (Restated)</b>	<b>Affiliated Services and Resources Corporation</b>	<b>Eliminations (Restated)</b>	<b>Total (Restated)</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 1,485,091	\$ 187,883	\$ --	\$ 1,672,974
Due from funding agencies, net	629,075	--	--	629,075
Medicaid Title XIX receivable, net of allowance for doubtful accounts of \$3,731,657	4,394,730	--	--	4,394,730
Other current assets	18,338	--	--	18,338
Total current assets	<u>6,527,234</u>	<u>187,883</u>	<u>--</u>	<u>6,715,117</u>
Property and equipment				
Construction in progress	514,014	--	--	514,014
Land	113,000	202,482	--	315,482
Building	1,610,282	932,117	--	2,542,399
Renovations and building improvements	10,828,322	--	--	10,828,322
Furniture, fixtures and equipment	6,138,076	75,499	--	6,213,575
Automotive equipment	458,817	316,707	--	775,524
	<u>19,662,511</u>	<u>1,526,805</u>	<u>--</u>	<u>21,189,316</u>
Less: Accumulated depreciation	<u>13,308,956</u>	<u>974,226</u>	<u>--</u>	<u>14,283,182</u>
Property and equipment, net	6,353,555	552,579	--	6,906,134
Other assets				
Due from affiliates	704,292	--	(434,168)	270,124
Other assets	5,540	--	--	5,540
Total other assets	<u>709,832</u>	<u>--</u>	<u>(434,168)</u>	<u>275,664</u>
	<u>\$13,590,621</u>	<u>\$ 740,462</u>	<u>\$ (434,168)</u>	<u>\$ 13,896,915</u>
<b>Liabilities and Net Assets</b>				
Current liabilities				
Due to funding agencies	\$ 156,791	\$ --	\$ --	\$ 156,791
Accounts payable and accrued expenses	3,453,368	--	--	3,453,368
Other current liabilities	181,654	5,201	--	186,855
Total current liabilities	<u>3,791,813</u>	<u>5,201</u>	<u>--</u>	<u>3,797,014</u>
Due to affiliates	144,846	472,861	(434,168)	183,539
Total liabilities	<u>3,936,659</u>	<u>478,062</u>	<u>(434,168)</u>	<u>3,980,553</u>
Unrestricted net assets				
Operating	3,300,407	262,400	--	3,562,807
Property and equipment	6,353,555	--	--	6,353,555
Total unrestricted net assets	<u>9,653,962</u>	<u>262,400</u>	<u>--</u>	<u>9,916,362</u>
	<u>\$13,590,621</u>	<u>\$ 740,462</u>	<u>\$ (434,168)</u>	<u>\$ 13,896,915</u>

The Notes to Consolidating Financial Statements are an integral part of this statement.

**Addiction Research and Treatment Corporation and Subsidiary**  
**Consolidating Statements of Activities**  
**Year Ended December 31, 2012 (With Comparative Totals for 2011)**

	<u>Addiction Research and Treatment Corporation</u>	<u>Affiliated Services and Resources Corporation</u>	<u>Eliminations</u>	<u>Total</u>	<u>2011 Total (Restated)</u>
Changes in unrestricted net assets					
Revenues					
New York State Department of Health, Office of Alcoholism and Substance Abuse Services	\$ 2,418,505	\$ --	\$ --	\$ 2,418,505	\$ 1,234,936
Medicaid Title XIX	17,104,798	--	--	17,104,798	18,118,092
Patient fees	323,648	--	--	323,648	265,751
Contract/grant revenue	2,597,906	--	--	2,597,906	1,538,504
Rental revenue	106,512	--	--	106,512	122,621
Vending machine revenue	--	1,216	--	1,216	19,571
Interest and dividends	13,963	152	--	14,115	12,659
Food revenue	262,699	--	--	262,699	548,197
Fundraising	61,600	--	--	61,600	--
Other	62,928	228	--	63,156	387,260
	<u>22,952,559</u>	<u>1,596</u>	<u>--</u>	<u>22,954,155</u>	<u>22,247,591</u>
Expenses and losses					
Program services					
Clinic operations	15,138,496	--	--	15,138,496	16,587,522
Research activities	91,817	--	--	91,817	88,508
Other programs	2,195,633	--	--	2,195,633	2,635,454
Total program services	<u>17,425,946</u>	<u>--</u>	<u>--</u>	<u>17,425,946</u>	<u>19,311,484</u>
Supporting services					
Administration	3,587,966	--	--	3,587,966	3,058,417
Fundraising	27,216	--	--	27,216	--
Facility	--	6,677	--	6,677	41,860
	<u>3,615,182</u>	<u>6,677</u>	<u>--</u>	<u>3,621,859</u>	<u>3,100,277</u>
	<u>21,041,128</u>	<u>6,677</u>	<u>--</u>	<u>21,047,805</u>	<u>22,411,761</u>
Changes in unrestricted net assets	<u>\$ 1,911,431</u>	<u>\$ (5,081)</u>	<u>\$ --</u>	<u>\$ 1,906,350</u>	<u>\$ (164,170)</u>

The Notes to Consolidating Financial Statements are an integral part of this statement.

**Addiction Research and Treatment Corporation and Subsidiary**  
**Consolidating Statements of Activities**  
**Year Ended December 31, 2011**

	<u>Addiction Research and Treatment Corporation</u> (Restated)	<u>Affiliated Services and Resources Corporation</u>	<u>Eliminations</u>	<u>Total</u> (Restated)
Changes in unrestricted net assets				
Revenues				
New York State Department of Health, Office of Alcoholism and Substance Abuse Services	\$ 1,234,936	\$ --	\$ --	\$ 1,234,936
Medicaid Title XIX	18,118,092	--	--	18,118,092
Patient fees	265,751	--	--	265,751
Contract/grant revenue	1,538,504	--	--	1,538,504
Rental revenue	100,590	22,031	--	122,621
Vending machine revenue	--	19,571	--	19,571
Interest and dividends	12,401	258	--	12,659
Food revenue	548,197	--	--	548,197
Other	387,260	--	--	387,260
	<u>22,205,731</u>	<u>41,860</u>	<u>--</u>	<u>22,247,591</u>
Expenses and losses				
Program services				
Clinic operations	16,587,522	--	--	16,587,522
Research activities	88,508	--	--	88,508
Other programs	2,635,454	--	--	2,635,454
Total program services	<u>19,311,484</u>	<u>--</u>	<u>--</u>	<u>19,311,484</u>
Supporting services				
Administration	3,058,417	--	--	3,058,417
Facility	--	41,860	--	41,860
	<u>3,058,417</u>	<u>41,860</u>	<u>--</u>	<u>3,100,277</u>
	<u>22,369,901</u>	<u>41,860</u>	<u>--</u>	<u>22,411,761</u>
Changes in unrestricted net assets	<u>\$ (164,170)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ (164,170)</u>

The Notes to Consolidating Financial Statements are an integral part of this statement.

**Addiction Research and Treatment Corporation and Subsidiary**  
**Consolidating Statements of Changes in Net Assets**  
**Years Ended December 31, 2012 and 2011**

	<u>Addiction Research and Treatment Corporation</u>		<u>Affiliated Services and Resources Corporation</u>	<u>Total</u>
	<u>Operating</u>	<u>Property and Equipment Fund</u>	<u>Operating</u>	
Unrestricted net assets December 31, 2010	\$ 3,084,094	\$ 6,734,038	\$ 262,400	\$ 10,080,532
Changes in unrestricted net assets (restated)	<u>216,313</u>	<u>(380,483)</u>	<u>--</u>	<u>(164,170)</u>
Unrestricted net assets December 31, 2011 (restated)	3,300,407	6,353,555	262,400	9,916,362
Changes in unrestricted net assets	<u>708,736</u>	<u>1,202,695</u>	<u>(5,081)</u>	<u>1,906,350</u>
Unrestricted net assets December 31, 2012	<u>\$ 4,009,143</u>	<u>\$ 7,556,250</u>	<u>\$ 257,319</u>	<u>\$ 11,822,712</u>

The Notes to Consolidating Financial Statements are an integral part of these statements.

**Addiction Research and Treatment Corporation and Subsidiary**  
**Consolidating Statements of Cash Flows**  
**Year Ended December 31, 2012**

	<b>Addiction Research and Treatment Corporation</b>	<b>Affiliated Services and Resources Corporation</b>	<b>Eliminations</b>	<b>Total</b>
<b>Cash flows from operating activities</b>				
Changes in unrestricted net assets	\$ 1,911,431	\$ (5,081)	\$ --	\$ 1,906,350
Adjustments to reconcile changes in unrestricted net assets to net cash (used) provided by operating activities				
Depreciation	561,556	6,677	--	568,233
Changes in assets and liabilities				
Due from funding agencies	127,985	--	--	127,985
Medicaid Title XIX receivable	2,582,183	--	--	2,582,183
Other current assets	(20,659)	--	--	(20,659)
Other assets	--	--	--	--
Due to funding agencies	3,431,708	--	--	3,431,708
Accounts payable and accrued expenses	(907,336)	--	--	(907,336)
Other current liabilities	(95,064)	(1)	--	(95,065)
Due from/to affiliates	404,535	12,445	--	416,980
Net cash provided by operating activities	<u>7,996,339</u>	<u>14,040</u>	<u>--</u>	<u>8,010,379</u>
<b>Cash flows from investing activities</b>				
Property and equipment additions	<u>(1,764,251)</u>	<u>--</u>	<u>--</u>	<u>(1,764,251)</u>
Net cash used by investing activities	<u>(1,764,251)</u>	<u>--</u>	<u>--</u>	<u>(1,764,251)</u>
Net changes in cash and cash equivalents	6,232,088	14,040	--	6,246,128
<b>Cash and cash equivalents</b>				
Beginning of year	<u>1,485,091</u>	<u>187,883</u>	<u>--</u>	<u>1,672,974</u>
End of year	<u>\$ 7,717,179</u>	<u>\$ 201,923</u>	<u>\$ --</u>	<u>\$ 7,919,102</u>

The Notes to Consolidating Financial Statements are an integral part of this statement.

**Addiction Research and Treatment Corporation and Subsidiary**  
**Consolidating Statements of Cash Flows**  
**Year Ended December 31, 2011**

	<b>Addiction Research and Treatment Corporation</b>	<b>Affiliated Services and Resources Corporation</b>	<b>Eliminations</b>	<b>Total</b>
	<b>(Restated)</b>			<b>(Restated)</b>
<b>Cash flows from operating activities</b>				
Changes in unrestricted net assets	\$ (164,170)	\$ --	\$ --	\$ (164,170)
Adjustments to reconcile changes in unrestricted net assets to net cash (used) provided by operating activities				
Depreciation	595,300	15,623	--	610,923
Bad debts	835,036	--	--	835,036
Changes in assets and liabilities				
Due from funding agencies	(500,981)	--	--	(500,981)
Medicaid Title XIX receivable	(4,185,652)	--	--	(4,185,652)
Other current assets	41,787	--	--	41,787
Deferred income	(1,390)	--	--	(1,390)
Due to funding agencies	(235,017)	--	--	(235,017)
Accounts payable and accrued expenses	1,252,822	--	--	1,252,822
Other current liabilities	121,672	1	--	121,673
Due to affiliates	(1,470,405)	15,917	--	(1,454,488)
Net cash (used) provided by operating activities	<u>(3,710,998)</u>	<u>31,541</u>	<u>--</u>	<u>(3,679,457)</u>
<b>Cash flows from investing activities</b>				
Property and equipment additions	(214,817)	--	--	(214,817)
Net cash used by investing activities	<u>(214,817)</u>	<u>--</u>	<u>--</u>	<u>(214,817)</u>
Net changes in cash and cash equivalents	(3,925,815)	31,541	--	(3,894,274)
<b>Cash and cash equivalents</b>				
Beginning of year	<u>5,410,906</u>	<u>156,342</u>	<u>--</u>	<u>5,567,248</u>
End of year	<u>\$ 1,485,091</u>	<u>\$ 187,883</u>	<u>\$ --</u>	<u>\$ 1,672,974</u>

The Notes to Consolidating Financial Statements are an integral part of this statement.

**Addiction Research and Treatment Corporation and Subsidiary**  
**Consolidating Statements of Functional Expenses**  
**Year Ended December 31, 2012**

	<b>Addiction Research and Treatment Corporation</b>					<b>Affiliated Services and Resources Corporation</b>	<b>Total</b>
	<b>Clinic Operations</b>	<b>Research Activities</b>	<b>Other Programs</b>	<b>Administration</b>	<b>Fundraising</b>	<b>Facility</b>	
Personnel costs	\$ 11,911,305	\$ 46,907	\$ 1,570,016	\$ 2,708,834	\$ --	\$ --	\$ 16,237,062
Patient costs	322,915	37,831	1,450	--	--	--	362,196
Medical supplies and prescription drugs	727,053	--	--	1,558	--	--	728,611
Consumable supplies	71,771	--	162,447	31,918	7,104	--	273,240
Rent	164,282	--	18,000	--	--	--	182,282
Utilities	456,838	--	19,077	200,007	--	--	675,922
Telephone services	209,702	--	6,130	122,028	--	--	337,860
Outside security services	65,454	--	--	2,852	--	--	68,306
Repairs and maintenance	265,866	--	3,403	55,441	--	--	324,710
Equipment rental	79,192	--	--	64,558	--	--	143,750
Janitorial and maintenance supplies	201,377	--	10,242	102,733	--	--	314,352
Legal and accounting	--	--	9,000	175,706	--	--	184,706
Consulting	11,000	--	22,932	78,275	15,000	--	127,207
Data processing	--	--	3,145	22,082	--	--	25,227
Conference and meetings	27,694	6,150	4,104	18,299	4,959	--	61,206
Staff travel	1,063	--	24,941	32,929	28	--	58,961
Staff recruitment	--	--	49	37,745	--	--	37,794
Insurance	138,863	--	14,530	93,439	--	--	246,832
Indirect costs	93,708	--	229,600	(323,308)	--	--	--
Depreciation	365,531	897	95,135	99,993	--	6,677	568,233
Other	24,882	32	1,432	62,877	125	--	89,348
	<u>\$ 15,138,496</u>	<u>\$ 91,817</u>	<u>\$ 2,195,633</u>	<u>\$ 3,587,966</u>	<u>\$ 27,216</u>	<u>\$ 6,677</u>	<u>\$ 21,047,805</u>

The Notes to Consolidating Financial Statements are an integral part of this statement.

**Addiction Research and Treatment Corporation and Subsidiary**  
**Consolidating Statements of Functional Expenses**  
**Year Ended December 31, 2011**

	<b>Addiction Research and Treatment Corporation</b>				<b>Affiliated Services and Resource Corporation</b>	<b>Total</b>
	<b>Clinic Operations</b>	<b>Research Activities</b>	<b>Other Programs</b>	<b>Administration</b>	<b>Facility</b>	
Personnel costs	\$ 12,596,517	\$ 68,540	\$ 1,581,166	\$ 2,143,214	\$ --	\$ 16,389,437
Patient costs	292,050	5,290	3,505	--	--	300,845
Medical supplies and prescription drugs	696,568	21	7,049	2,064	--	705,702
Consumable supplies	85,248	133	485,053	33,939	14,016	618,389
Rent	147,014	--	600	--	--	147,614
Utilities	479,764	--	49,177	168,204	--	697,145
Telephone services	217,953	--	10,643	86,839	--	315,435
Outside security services	65,300	--	--	9,702	--	75,002
Repairs and maintenance	273,487	--	4,904	110,926	12,221	401,538
Equipment rental	81,264	--	--	65,068	--	146,332
Janitorial and maintenance supplies	173,050	--	32,248	66,783	--	272,081
Legal and accounting	--	--	358	172,651	--	173,009
Consulting	11,408	--	37,733	101,748	--	150,889
Data processing	--	--	18	41,794	--	41,812
Conference and meetings	22,401	4,998	433	20,297	--	48,129
Staff travel	979	--	45,292	29,131	--	75,402
Staff recruitment	192	--	60	34,172	--	34,424
Insurance	98,121	--	14,167	115,864	--	228,152
Indirect costs	90,677	7,120	213,235	(311,032)	--	--
Depreciation	401,311	2,406	97,150	94,433	15,623	610,923
Bad debts expense	786,432	--	48,604	--	--	835,036
Other	67,786	--	4,059	72,620	--	144,465
	<u>\$ 16,587,522</u>	<u>\$ 88,508</u>	<u>\$ 2,635,454</u>	<u>\$ 3,058,417</u>	<u>\$ 41,860</u>	<u>\$ 22,411,761</u>

The Notes to Consolidating Financial Statements are an integral part of this statement.



# Addiction Research and Treatment Corporation and Subsidiary

## Notes to Consolidating Financial Statements

### December 31, 2012 and 2011

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#### 1. Organization and Purpose

Addiction Research and Treatment Corporation (“ARTC”) is a private, nonprofit corporation established in 1969. ARTC primarily offers substance abuse treatment and rehabilitation services in the boroughs of Brooklyn and Manhattan of New York City. In addition, ARTC performs research in several areas related to substance abuse.

Affiliated Services and Resources Corporation (“ASRC”) is a private, nonprofit corporation and wholly owned Subsidiary of ARTC which owns and manages facilities rented to nonprofit corporations.

#### 2. Summary of Significant Accounting Policies

##### Basis of Presentation

The consolidating financial statements include Addiction Research and Treatment Corporation and Affiliated Services and Resources Corporation (the “Corporation”) with all significant intercompany transactions eliminated.

Financial reporting by nonprofit organizations requires that resources be classified for accounting and reporting purposes into net asset categories according to externally (donor) imposed restrictions. The Corporation had accounting transactions only in the unrestricted net asset category. This category represents net assets that are not subject to donor imposed restrictions.

##### Cash and Cash Equivalents

For purposes of the consolidating statements of cash flows, the Corporation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

##### Property and Equipment

Property and equipment is stated at cost. Depreciation is provided over the estimated useful lives of the assets by the straight-line-method.

The estimated useful lives of assets by major asset category are as follows:

Description	Estimated Life (Years)
Building	25
Renovations and leasehold improvements	10
Furniture, fixtures and equipment	5-10
Automotive equipment	5

When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts and from the applicable net asset category. Maintenance, repairs and minor renewals are charged to operations as incurred. Depreciation expense amounted to \$568,233 and \$610,923 for the years ended December 31, 2012 and 2011, respectively.

##### Revenue Recognition

The Corporation recognizes contributions as revenue when they are received or unconditionally pledged and records these revenues as unrestricted or restricted support, according to donor stipulations that limit the use of these assets due to time or purpose restrictions. For the years ended December 31, 2012 and 2011, all transactions were in the unrestricted category.

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidating statements of activities as net assets released from restrictions.

**Addiction Research and Treatment Corporation and Subsidiary**  
**Notes to Consolidating Financial Statements**  
**December 31, 2012 and 2011**

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The Corporation is primarily funded through billings to the State of New York - Department of Health for patient services provided under Title XIX of the Social Security Act of 1985 (Medicaid) and by the New York State Department of Health - Office of Alcoholism and Substance Abuse Service ("OASAS"). In addition, the Corporation receives a significant amount of funding under grants and contracts from Federal, State and City agencies to both expand services to its clients and to perform research activities.

Revenue from billings to Medicaid is recorded at the time service is provided, net of an allowance for uncollectible amounts. Program revenue under the Corporation's OASAS contracts and its Federal and State contracts/grants is recognized in an amount sufficient to absorb allowable expenditures including capital items and excluding depreciation, net of all applicable third party reimbursements, up to the maximum allowable amount under the terms of the contracts/grants. A receivable from the funding agency is recognized to the extent expenses have been incurred but not reimbursed. A liability is recorded when contract advances exceed expenses.

**Impairment**

On a periodic basis, management assesses whether there are any indicators that the value of the property may be impaired. A property's value is impaired only if management's estimate of the aggregate future cash flows (undiscounted) to be generated by the property are less than the carrying value of the property. No such impairment has been recorded in the years ended December 31, 2012 and 2011.

**Functional Allocation of Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidating statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**3. Income Taxes**

The Corporation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under applicable state provisions.

The Corporation had no unrecognized tax benefits at December 31, 2012 and 2011. In addition the Corporation has no income tax related penalties or interest for the periods presented in these consolidating financial statements. The Corporation has no open tax years prior to 2009. In addition the Corporation has no income tax related penalties or interest for the periods reported in these consolidating financial statements.

**4. Due From/To Funding Agencies**

Amounts due from funding agencies are as follows:

	<b>2012</b>	<b>2011</b>
NY State Department of Health	\$ 404,973	\$ 131,521
New York University School of Medicine - NIDA	29,998	30,222
New York State Department of Health –Office of Alcoholism and Substance Abuse Services	--	363,608
New York State AIDS Institute	26,917	26,917
Other	39,202	76,807
	<u>\$ 501,090</u>	<u>\$ 629,075</u>

**Addiction Research and Treatment Corporation and Subsidiary**  
**Notes to Consolidating Financial Statements**  
**December 31, 2012 and 2011**

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	2012	2011
Amounts due to funding agencies are as follows:		
New York State Department of Health	\$ 14,569	\$ 14,569
New York State Department of Health –Office of Alcoholism and Substance Abuse Services	3,402,375	--
New York University School of Medicine - NIDA	28,556	--
Other	<u>142,999</u>	<u>142,222</u>
	<u>\$ 3,588,499</u>	<u>\$ 156,791</u>

**5. Pension Plan**

Substantially all of the Corporation's full time employees are covered under a noncontributory, defined contribution pension plan. The pension plan is funded by annual contributions equal to 7.5 percent of eligible employees' current salaries. Pension expense for the years ended December 31, 2012 and 2011 was \$933,736 and \$870,812, respectively. It is the Corporation's policy to fund the plan currently.

**6. Related Party Transactions**

Through June 30, 2011, the Corporation retained Urban Resource Institute ("URI"), an organization affiliated through common management and similar Trustees, to provide all management services. The agreement required the Corporation to reimburse URI for estimated costs incurred in providing the management services. There was no cost reimbursement to URI for 2012 and total costs reimbursed to URI during 2011 and included in administration were \$471,707. For the period July 1, 2011 through May 6, 2012, no management services were billed or paid by agreement of the entities. Effective May 7, 2012, the entities signed an agreement calling for the Corporation to provide transitional services to URI until June 30, 2012 for a fixed fee of \$300,000.

The Corporation earned rental income from URI for facilities and equipment totaling \$106,512 and \$122,621 for the years ending December 31, 2012 and 2011, respectively. Amounts due to URI at December 31, 2012 and 2011 were \$49 and \$145,742, respectively. These amounts are unsecured, non-interest bearing cash advances.

**7. Lease Commitments**

Rent expense for clinic space under non-cancellable and cancellable month-to-month operating leases amounted to \$182,282 and \$147,614 for the years ended December 31, 2012 and 2011, respectively. The future annual payments under non-cancelable operating leases as of December 31, 2012 are as follows:

Year Ending December 31,	Amount
2013	\$ 138,716
2014	<u>142,878</u>
	<u>\$ 281,594</u>

**8. Concentrations and Use of Estimates**

The Corporation routinely maintains cash balances at financial institutions in excess of federally insured limits. Management monitors the soundness of the institutions on a regular basis and deems the credit risk related to these cash balances to be minimal.

**Addiction Research and Treatment Corporation and Subsidiary**  
**Notes to Consolidating Financial Statements**  
**December 31, 2012 and 2011**

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The preparation of consolidating financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**9. Contingencies and Other Matters**

The Corporation entered into a state aid grant lien agreement with the New York State Office of Alcoholism and Substance Abuse Services to fund renovations at two of its facilities. The maximum funding amounts are \$6,100,000 and \$7,410,000, respectively. As long as the facilities are used for program purposes, the liens will not be exercised.

As of December 31, 2012 and 2011, \$2,000,000 and \$402,443, respectively, had been advanced and \$1,438,059 and \$348,975, respectively, had been expended in project costs for the first project. As of December 31, 2012 \$2,321,500 had been advanced and there was no advance for 2011 and \$292,049 and \$165,039, respectively, had been expended in project costs for the second project.

**10. Supplemental Disclosures of Cash Flow Information**

**Non-Cash Investing and Financing Activities**

During the year ended December 31, 2012, ASRC transferred title to property and equipment to ARTC totaling \$823,837 along with accumulated depreciation of \$535,657.

**11. Prior-Period Adjustment**

In its previously issued consolidating financial statements for the year ended December 31, 2011, the Corporation did not include revenue of \$270,124 and the associated \$270,124 balance due from affiliates. The net effect of this adjustment is an increase to revenue of \$270,124 for the year ended December 31, 2011 and an increase to assets of \$270,124 as of December 31, 2011.

**12. Subsequent Events**

The Corporation has evaluated subsequent events occurring after the consolidating statement of financial position date through the date of April 2, 2013. Based on this evaluation, the Corporation has determined that no subsequent events have occurred, which require disclosure in the consolidating financial statements.

**SUPPLEMENTARY INFORMATION**

**Addiction Research and Treatment Corporation and Subsidiary**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2012**

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<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Health and Human Services</b>			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	C-003656	\$ 557,496

See Independent Auditors' Report.  
See accompanying Notes to Schedule of Expenditures of Federal Awards.

**Addiction Research and Treatment Corporation and Subsidiary**  
**Notes to Schedule of Expenditures of Federal Awards**  
**December 31, 2012**

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**1. General Information**

The accompanying schedule of expenditures of Federal awards presents the activities in all the Federal programs of Addiction Research and Treatment Corporation. All Federal awards received directly from Federal agencies as well as Federal awards passed through other governmental agencies or nonprofit organizations are included on the schedule.

**2. Basis of Accounting**

The accompanying schedule of expenditures of Federal awards is presented using the accrual basis of accounting. The amounts reported in this schedule as expenditures may differ from certain financial reports submitted to Federal funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

**3. Relationship to Basic Consolidating Financial Statements**

Federal program expenditures are reported on the consolidating statements of activities. In certain programs, the expenditures reported in the basic consolidating financial statements may differ from the expenditures reported in the schedule of expenditures of Federal awards due to program expenditures exceeding grant or contract budget limitations, company matching or in-kind contributions which are not included as Federal awards.



WithumSmith+Brown, PC  
A Professional Corporation  
Certified Public Accountants and Consultants

One Spring Street  
New Brunswick, NJ 08901  
732.828.1614 fax 732.828.5156

[www.withum.com](http://www.withum.com)

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**Independent Auditors' 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**

To the Board of Trustees,  
Addiction Research and Treatment Corporation:

We have audited, 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, the consolidating financial statements of Addiction Research and Treatment Corporation and Subsidiary, which comprise the consolidating statement of financial position as of and for the year ended December 31, 2012, and the related consolidating statements of activities, changes in net assets and cash flows for the year then ended, and the related notes to the consolidating financial statements, and have issued our report thereon dated April 2, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidating financial statements, we considered Addiction Research and Treatment Corporation and Subsidiary'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 opinions on the consolidating financial statements, but not for the purpose of expressing an opinion on the effectiveness of Addiction Research and Treatment Corporation and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Addiction Research and Treatment Corporation and Subsidiary'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 combination of deficiencies, in internal control, such that there is more than a reasonable possibility that a misstatement of the entity's consolidating 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 over financial reporting 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 Addiction Research and Treatment Corporation and Subsidiary's consolidating 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 consolidating 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 other matters that we reported to management of Addiction Research and Treatment Corporation in a separate letter dated April 2, 2013.

**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 Addiction Research and Treatment Corporation and Subsidiary'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 Addiction Research and Treatment Corporation and Subsidiary's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



April 2, 2013



WithumSmith+Brown, PC  
A Professional Corporation  
Certified Public Accountants and Consultants

One Spring Street  
New Brunswick, NJ 08901  
732.828.1614 fax 732.828.5156

www.withum.com

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## **Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on the Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the Board of Trustees,  
Addiction Research and Treatment Corporation:

### **Compliance**

We have audited Addiction Research and Treatment Corporation and Subsidiary'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 of Addiction Research and Treatment Corporation and Subsidiary's major federal program for the year ended December 31, 2012. Addiction Research and Treatment Corporation and Subsidiary's major federal program is identified in the summary of auditors' 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 Addiction Research and Treatment Corporation and Subsidiary's management. Our responsibility is to express an opinion on Addiction Research and Treatment Corporation and Subsidiary's compliance based on our audit.

### **Management's Responsibility**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on compliance of Addiction Research and Treatment Corporation and Subsidiary's major federal program 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 Addiction Research and Treatment Corporation and Subsidiary'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 Addiction Research and Treatment Corporation and Subsidiary's compliance.

#### **Opinion on Major Federal Program**

In our opinion, Addiction Research and Treatment Corporation and Subsidiary complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

#### **Report on Internal Control Over Compliance**

Management of Addiction Research and Treatment Corporation and Subsidiary is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Addiction Research and Treatment Corporation and Subsidiary's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 Addiction Research and Treatment Corporation and Subsidiary'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.



April 2, 2013

**Addiction Research and Treatment Corporation and Subsidiary  
Schedule of Findings and Questioned Costs  
Year Ended December 31, 2012**

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**Section 1 – Summary of Auditors’ Results**

**Consolidating Financial Statements**

Type of auditors’ report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to consolidating financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	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

The following Federal program was designated as a major program:

Federal CFDA Number	Federal Agency
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as a low-risk auditee?	Yes

**Section 2 – Summary of Findings Related to Government Auditing Standards**

None.

**Section 3 – Summary of Findings or Questioned Costs Related to OMB Circular A-133**

None.

**Section 4 – Follow-Up of Prior Audit Findings**

There were no prior year audit findings or questioned costs.