TREATMENT ADVOCACY CENTER

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2013 AND 2012

Halt Buzas & Powell, LTD

CERTIFIED PUBLIC ACCOUNTANTS • MANAGEMENT CONSULTANTS

TREATMENT ADVOCACY CENTER

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Treatment Advocacy Center
Arlington, Virginia

We have audited the accompanying financial statements of Treatment Advocacy Center (the Center), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 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 auditors' 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 the Center as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses (pages 17-18) are presented for purposes of additional analysis and are 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.

Halt, Buzas & Powell, Ltd.

Alexandria, Virginia
August 16, 2013

TREATMENT ADVOCACY CENTER

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Assets:		
Cash and cash equivalents	$ 457,193	$ 497,606
Accounts receivable	508	638
Contributions receivable	75,000	-
Inventory	2,320	2,828
Prepaid expenses	12,837	16,716
Property and equipment, net	31,621	26,399
Deposit	22,218	22,218
Total assets	$ 601,697	$ 566,405
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 7,594	$ 19,379
Accrued expenses	35,907	40,305
Capital lease obligation	3,773	9,093
Total liabilities	47,274	68,777
Net assets:		
Unrestricted	55,836	84,763
Unrestricted, board designated	405,562	383,093
Total unrestricted net assets	461,398	467,856
Temporarily restricted	93,025	29,772
Total net assets	554,423	497,628
Total liabilities and net assets	$ 601,697	$ 566,405

See accompanying notes to financial statements.

TREATMENT ADVOCACY CENTER

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Stanley Foundation contributions	$ 600,000	$ -	$ 600,000
Contributions	328,449	95,628	424,077
In-kind contributions	144,798	-	144,798
Other income	1,371	-	1,371
Investment income	828	-	828
Net assets released from restrictions:			
Satisfaction of purpose restrictions	32,375	(32,375)	-
Total revenues	1,107,821	63,253	1,171,074
Expenses:			
Program services	686,320	-	686,320
Support services:			
Management and general	348,502	-	348,502
Fundraising	79,457	-	79,457
Total support services	427,959	-	427,959
Total expenses	1,114,279	-	1,114,279
Change in net assets	(6,458)	63,253	56,795
Net assets, July 1, 2012	467,856	29,772	497,628
Net assets, June 30, 2013	$ 461,398	$ 93,025	$ 554,423

See accompanying notes to financial statements.

TREATMENT ADVOCACY CENTER

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Stanley Foundation contributions	$ 700,000	$ -	$ 700,000
Contributions	347,338	55,000	402,338
In-kind contributions	111,040	-	111,040
Other income	2,795	-	2,795
Investment income	3,353	-	3,353
Net assets released from restrictions:			
Satisfaction of purpose restrictions	66,029	(66,029)	-
Total revenues	1,230,555	(11,029)	1,219,526
Expenses:			
Program services	765,771	-	765,771
Support services:			
Management and general	341,909	-	341,909
Fundraising	90,164	-	90,164
Total support services	432,073	-	432,073
Total expenses	1,197,844	-	1,197,844
Change in net assets	32,711	(11,029)	21,682
Net assets, July 1, 2011	435,145	40,801	475,946
Net assets, June 30, 2012	$ 467,856	$ 29,772	$ 497,628

See accompanying notes to financial statements.

TREATMENT ADVOCACY CENTER

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 56,795	$ 21,682
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	12,584	12,856
Realized loss (gain) on investment	173	(1,589)
Loss on disposal of property and equipment	245	-
Donated stock	(25,280)	(1,931)
Donated property and equipment	(18,052)	(2,263)
Decrease (increase) in assets:		
Contributions receivable	(75,000)	2,556
Inventory	508	123
Prepaid expenses	3,879	(263)
Accounts receivable	130	-
Increase (decrease) in liabilities:		
Accounts payable	(11,785)	4,302
Accrued expenses	(4,398)	7,756
Total adjustments	(116,996)	21,547
Net cash (used in) provided by operating activities	(60,201)	43,229
Cash flows from investing activities:		
Proceeds from sales of investments	25,108	3,520
Purchases of property and equipment	-	(2,500)
Net cash provided by investing activities	25,108	1,020
Cash flows from financing activities:		
Principal payments on capital lease	(5,320)	(4,940)
Net cash used in financing activities	(5,320)	(4,940)
Net (decrease) increase in cash and cash equivalents	(40,413)	39,309
Cash and cash equivalents, beginning of year	497,606	458,297
Cash and cash equivalents, end of year	$ 457,193	$ 497,606
Supplemental disclosures of cash flow information:		
Cash paid for interest expense	$ 500	$ 881

See accompanying notes to financial statements.

1. Organization

Treatment Advocacy Center (the Center) is a nonprofit organization that was incorporated in Arlington, Virginia and began operations in 1998. The Center's mission is to support and conduct research into the treatment for and causes of serious mental illness, and to promote and support the adoption and implementation of laws and practices which increase access to timely and humane treatment for persons with serious brain disorders, incorporating current scientific knowledge, thereby decreasing homelessness, jailings, suicide, violence and other devastating consequences of lack of treatment to the individual and the community. The Center promotes the benefits of treating severe mental illness by compiling information about those benefits and educating individuals, the public, media, lawmakers and policymakers. The Center's main source of revenue is contributions.

Description of program and supporting services

The following program and supporting services are included in the accompanying financial statements:

Education and Advocacy - Education and advocacy program activities are conducted to eliminate barriers to treatment for individuals suffering from severe mental illness. The Center also serves as an information clearinghouse through its website and publication of on-line and hardcopy newsletters.

Management and general - This supporting service includes the functions necessary to secure proper administrative functioning of the Board of Directors, maintain an adequate working environment, and manage financial and budgetary responsibilities of the Center.

Fundraising - Fundraising activities include inducing potential donors to contribute money, securities, services, materials, or time through direct mail, electronic and personal contact solicitations.

2. Summary of significant accounting policies

Basis of presentation

The Center has presented its financial statements in accordance with *U.S. Generally Accepted Accounting Principles*. Under those principles, the Center is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets represent resources that are not subject to donor imposed stipulations and are available for operations at management's discretion. Included in unrestricted net assets are board designated amounts for $405,562 and $383,093, at June 30, 2013 and 2012, respectively, to be used for current and future projects and programs at the discretion of the board.

Temporarily Restricted Net Assets represent resources restricted by donors as to purpose or by the passage of time.

Permanently Restricted Net Assets represent resources whose use by the Center is limited by donor imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by action of the Center. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

The Center has no permanently restricted net assets at June 30, 2013 and 2012.

Basis of accounting

The financial statements are prepared on the accrual basis of accounting. Consequently, revenues are recognized when earned and expenses when obligations are incurred.

Use of estimates

The preparation of financial statements in conformity with *U.S. Generally Accepted Accounting Principles* requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses and their functional allocation during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The Center classifies all highly liquid investments with an original maturity of three months or less as cash equivalents. At June 30, 2013 and 2012, cash and cash equivalents included demand deposits and a money market fund.

Contributions receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at the present value of their estimated future cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. There were no contributions receivable expected to be collected that are due in excess of one year. No allowance for uncollectible contributions receivable has been established since management believes all receivables are fully collectible at June 30, 2013 and 2012.

Inventory

Inventory consists of books published by the Center entitled *Madness in the Streets* and *The Insanity Offense*. Inventory is stated at the lower of cost or net realizable value calculated using the first-in, first-out method.

Property and equipment

Property and equipment are reflected in the financial statements at cost, net of accumulated depreciation and amortization. Donated property and equipment is stated at fair value at the date of donation. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets as follows:

Website	3 years
Computer equipment	5 years
Furniture and equipment	5 years
Leasehold improvements	Life of lease

The Center's policy is to capitalize major additions and improvements over $1,000. For the year ended June 30, 2012, the capitalization threshold was $300. The Center raised its capitalization threshold to $1,000 beginning July 1, 2012. Repairs and maintenance which do not significantly add to the value of assets are expensed as incurred.

Income taxes

The Center is exempt from federal and local income taxes under Section 501(c)(3) of the Internal Revenue Code on any net income derived from activities related to its exempt purpose. This code section enables the Center to accept donations that qualify as charitable contributions to the donor. The Center is subject to tax on net income from unrelated business activities. For the years ended June 30, 2013 and 2012, the Center did not have any income taxes from unrelated business activities.

The Center is not aware of any activities that would jeopardize their tax-exempt status that would require recognition in the accompanying financial statements, pursuant to *Accounting Standards Codification (ASC) Topic Income Taxes*. Generally, tax returns are subject to examination by taxing authorities for up to three years from the date a completed return is filed. If there are material omissions of income, tax returns may be subject to examination for up to six years. It is the Center's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2013 and 2012, the Center had no accruals for interest and/or penalties.

Revenue recognition

Contributions

Contributions, including unconditional promises to give, are recognized as revenue when received or promised and are recorded net of any current year allowance or discount activity. The Center reports gifts of cash and other assets as temporarily restricted support if they are received or promised with donor stipulations that limit the use of the donated assets to one of the Center's programs or to a future year. When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as unrestricted if the restriction expires in the reporting period in which the contribution is recognized. Conditional promises to give, such as matching grants, are not recognized as revenue until they become unconditional, that is, until all conditions on which they depend are substantially met. There was one conditional promise to give in the form of a $25,000 matching pledge, which was collectible at June 30, 2013, as all conditions of the match agreement had been met.

In-kind contributions

Donated materials, services and use of facilities are recorded at fair value when unconditional commitment is received from the donor. In-kind contributions are recorded as revenue and expense in the accompanying financial statements. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Many individuals volunteer their time and perform a variety of tasks that assist the Center. The value of these contributed services is not recorded as in-kind contributions since the criteria for recognition was not met.

Functional allocation of expenses

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

Advertising expense

The Center expenses the cost of advertising as incurred. Advertising expense for the year ended June 30, 2012 was $3,825. There was no advertising expense for the year ended June 30, 2013.

Reclassification

Certain reclassifications have been made to the June 30, 2012 financial statements in order to present them in conformity with the June 30, 2013 financial statements. None of these reclassifications, however, affected the 2012 change in net assets.

3. Concentrations of credit risk

The Center maintains bank accounts that, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) limits. At June 30, 2013 and 2012, the Center had bank deposits in excess of FDIC limits of $36,865 and $35,864, respectively.

4. Property and equipment, net

The following is a summary of property and equipment held at June 30:

	2013	2012
Website	$ 6,400	$ 6,400
Computer equipment	46,151	44,123
Furniture and equipment	48,385	48,385
Leasehold improvements	7,364	7,364
Property and equipment	108,300	106,272
Accumulated depreciation and amortization	(76,679)	(79,873)
Property and equipment, net	$ 31,621	$ 26,399

Depreciation and amortization expense for the years ended June 30, 2013 and 2012 was $12,584 and $12,856, respectively.

5. Net assets released from restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose. Purpose restrictions accomplished during the years ended June 30, 2013 and 2012 were as follows:

	2013	2012
AOT cost study	$ 24,045	$ -
Technology infrastructure	6,318	-
AOT roadshow	1,804	-
Fundraising video	208	25,228
Psychiatric crisis kit	-	29,332
AOT manual	-	6,148
Collaboration project	-	5,321
Total net assets released from restrictions	$ 32,375	$ 66,029

6. Temporarily restricted net assets

At June 30, 2013 and 2012, temporarily restricted net assets were available for the following programs:

	2013	2012
AOT cost study	$ 50,955	$ -
Technology infrastructure	18,682	25,000
AOT roadshow	13,824	-
Research	5,000	-
Fundraising video	4,564	4,772
Total temporarily restricted net assets	$ 93,025	$ 29,772

7. In-kind contributions

The Center receives in-kind contributions of accounting, administrative services and capital equipment from The Stanley Medical Research Institute, a functionally integrated supporting organization under section 509(a)(3) of the Internal Revenue Code. The value of these contributed goods and services totaled $144,798 and $111,040, of which $18,052 and $2,263 have been capitalized as property and equipment, for the years ended June 30, 2013 and 2012, respectively. All remaining in-kind goods and services are included in support services as management and general expenses.

8. Concentration of support

The Center received a substantial portion of its support from one donor. These contributions constituted approximately 54% and 57% of total support and revenue for the years ended June 30, 2013 and 2012, respectively. A significant reduction in the level of this support, if it were to occur, may have a significant effect on the Center's programs and activities.

9. Commitments

Operating leases

The Center leases office space in Arlington, Virginia under a non-cancelable lease that expires in June 2015. Base annual rent is adjusted for operating costs, real estate taxes, and the Consumer Price Index. Rent expense for the years ended June 30, 2013 and 2012 was $91,393 and $85,735, respectively.

In addition, the Center has entered into two operating leases for office equipment. The non-cancelable operating leases began in May 2008 and expire in December 2013 and March 2014. The quarterly payments for the leases are $435 and $120. Equipment rent expense was $2,496 and $2,307 for the years ended June 30, 2013 and 2012, respectively.

Aggregate future minimum lease payments are as follows for the years ending June 30:

	Office Space	Office Equipment	Total
2014	$ 84,419	$ 870	$ 85,289
2015	86,940	-	86,940
Total	$ 171,359	$ 870	$ 172,229

Capital lease

During 2009, the Center entered into a capital lease to acquire copier equipment. The imputed interest rate on the lease is 7.5% and matures in February of 2014. The copier is included in property and equipment and recorded at fair value at the origination of the lease, which approximates cost of $24,372 less accumulated depreciation of $19,498 and $14,623, respectively.

The future minimum lease payments for the year ending June 30, 2014 totals $3,773, net of $107 for approximate interest expense.

10. Retirement plan

The Center has a defined contribution retirement plan covering employees who meet certain eligibility requirements. The Center's contributions to the plan are made in amounts equal to four percent of compensation. The plan's assets are held by a third-party administrator, TIAA-CREF, and are invested based on the participants' instructions. Retirement plan expense for the years ended June 30, 2013 and 2012 was $21,680 and $26,984, respectively.

11. Related party transaction

In February 2013, the Center signed an agreement with a technology organization for support services of a business application. The contract is for a period of one year with a subscription fee of $850. A member of the Center's Board of Directors is an investor in and board member of the technology organization.

12. Subsequent events

In preparing the financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through August 16, 2013, which is the date the financial statements were available to be issued.

In May 2013, the Center entered into a 60 month capital lease commitment for copier equipment with minimum monthly payments of $364, commencing July 1, 2013.

SUPPLEMENTAL INFORMATION

TREATMENT ADVOCACY CENTER

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2013

	Program services	Management and general	Fundraising	Total support services	Total expenses
Salaries	$ 449,480	$ 116,269	$ 39,625	$ 155,894	$ 605,374
Retirement plan	16,097	4,164	1,419	5,583	21,680
Employee benefits	20,248	5,238	1,785	7,023	27,271
Payroll taxes	38,086	9,852	3,358	13,210	51,296
Office supplies	6,333	1,637	568	2,205	8,538
Telephone	5,681	1,470	501	1,971	7,652
Postage and shipping	3,494	2,930	3,113	6,043	9,537
Occupancy	67,859	17,552	5,982	23,534	91,393
Equipment rental and maintenance	2,473	640	218	858	3,331
Printing and communications	11,986	2,964	14,356	17,320	29,306
Travel	7,499	11,806	3,460	15,266	22,765
Conferences, conventions and meetings	4,024	9,508	1,435	10,943	14,967
Depreciation and amortization	2,133	10,451	-	10,451	12,584
Property taxes	-	1,252	-	1,252	1,252
Insurance	-	7,209	-	7,209	7,209
Computer equipment and support	44	6,258	-	6,258	6,302
Dues, subscriptions and reference materials	-	1,233	-	1,233	1,233
Consulting fees	44,444	-	3,586	3,586	48,030
Service fees	6,439	7,447	51	7,498	13,937
Bank fees	-	3,376	-	3,376	3,376
In-kind services	-	126,746	-	126,746	126,746
Interest expense	-	500	-	500	500
Total expenses	$ 686,320	$ 348,502	$ 79,457	$ 427,959	$ 1,114,279

TREATMENT ADVOCACY CENTER

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2012

	Program services	Management and general	Fundraising	Total support services	Total expenses
Salaries	$ 531,231	$ 124,966	$ 42,106	$ 167,072	$ 698,303
Retirement plan	20,528	4,829	1,627	6,456	26,984
Employee benefits	33,564	7,895	2,660	10,555	44,119
Payroll taxes	41,753	9,822	3,309	13,131	54,884
Accounting fees	-	8,167	-	8,167	8,167
Office supplies	5,378	1,265	426	1,691	7,069
Telephone	5,986	1,408	474	1,882	7,868
Postage and shipping	2,224	4,260	1,843	6,103	8,327
Occupancy	65,223	15,343	5,169	20,512	85,735
Equipment rental and maintenance	2,577	606	204	810	3,387
Printing and communications	23,016	2,806	32,290	35,096	58,112
Travel	14,743	8,266	56	8,322	23,065
Conferences, conventions and meetings	-	8,159	-	8,159	8,159
Depreciation and amortization	1,717	11,139	-	11,139	12,856
Property taxes	-	1,066	-	1,066	1,066
Insurance	-	6,768	-	6,768	6,768
Advertising and promotion	3,600	225	-	225	3,825
Computer equipment and support	2,704	3,643	-	3,643	6,347
Dues, subscriptions and reference materials	-	1,320	-	1,320	1,320
Consulting fees	9,425	-	-	-	9,425
Service fees	2,102	7,835	-	7,835	9,937
Bank fees	-	2,463	-	2,463	2,463
In-kind services	-	108,777	-	108,777	108,777
Interest expense	-	881	-	881	881
Total expenses	$ 765,771	$ 341,909	$ 90,164	$ 432,073	$ 1,197,844