TREATMENT ADVOCACY CENTER

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2014 AND 2013

Halt Buzas & Powell, LTD

CERTIFIED PUBLIC ACCOUNTANTS • MANAGEMENT CONSULTANTS

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Halt Buzas & Powell, LTD
TRUST, INTEGRITY AND A COMMITMENT TO YOUR SUCCESS

1199 North Fairfax Street
10th Floor
Alexandria, Virginia 22314
p 703.836.1350
f 703.836.2159

2200 Defense Highway
Suite 403
Crofton, Maryland 21114
p 410.451.5150
f 410.451.5149

www.cpas4you.com

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 Organization), which comprise the statements of financial position as of June 30, 2014 and 2013, 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 Organization as of June 30, 2014 and 2013, 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 audits 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
October 21, 2014

TREATMENT ADVOCACY CENTER

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
Cash and cash equivalents	681,181	457,193
Accounts receivable	6,847	508
Contributions receivable	-	75,000
Inventory	2,099	2,320
Prepaid expenses	13,825	12,837
Property and equipment, net	51,699	31,621
Deposit	22,218	22,218
Total assets	$ 777,869	$ 601,697
LIABILITIES AND NET ASSETS		
Accounts payable	11,027	7,594
Accrued expenses	37,848	35,907
Capital lease obligations	14,999	3,773
Total liabilities	63,874	47,274
Net assets:		
Unrestricted	176,103	55,836
Unrestricted, board designated	402,476	405,562
Total unrestricted net assets	578,579	461,398
Temporarily restricted	135,416	93,025
Total net assets	713,995	554,423
Total liabilities and net assets	$ 777,869	$ 601,697

See accompanying notes to financial statements.

TREATMENT ADVOCACY CENTER

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Stanley Foundation contributions	$ 600,000	$ -	$ 600,000
Other contributions	624,026	110,000	734,026
In-kind contributions	123,662	-	123,662
Other income	3,572	-	3,572
Investment income	1,248	-	1,248
Net assets released from restrictions:			
Satisfaction of donor restriction	67,609	(67,609)	-
Total revenues	1,420,117	42,391	1,462,508
Expenses:			
Program services	862,128	-	862,128
Support services:			
Management and general	349,880	-	349,880
Fundraising	90,928	-	90,928
Total support services	440,808	-	440,808
Total expenses	1,302,936	-	1,302,936
Change in net assets	117,181	42,391	159,572
Net assets, beginning of year	461,398	93,025	554,423
Net assets, end of year	$ 578,579	$ 135,416	$ 713,995

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
Other 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 donor restriction	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, beginning of year	467,856	29,772	497,628
Net assets, end of year	$ 461,398	$ 93,025	$ 554,423

See accompanying notes to financial statements.

TREATMENT ADVOCACY CENTER

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 159,572	$ 56,795
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	15,301	12,584
Realized loss on investment	-	173
Loss on disposal of property and equipment	1,389	245
Donated investments	-	(25,280)
Donated property and equipment	-	(18,052)
Decrease (increase) in assets:		
Accounts receivable	(6,339)	130
Contributions receivable	75,000	(75,000)
Inventory	221	508
Prepaid expenses	(988)	3,879
Increase (decrease) in liabilities:		
Accounts payable	3,433	(11,785)
Accrued expenses	1,941	(4,398)
Total adjustments	89,958	(116,996)
Net cash provided by (used in) operating activities	249,530	(60,201)
Cash flows from investing activities:		
Proceeds from sales of investments	-	25,108
Purchases of property and equipment	(18,568)	-
Net cash (used in) provided by investing activities	(18,568)	25,108
Cash flows from financing activities:		
Principal payments on capital lease obligations	(6,974)	(5,320)
Net cash used in financing activities	(6,974)	(5,320)
Net increase (decrease) in cash and cash equivalents	223,988	(40,413)
Cash and cash equivalents, beginning of year	457,193	497,606
Cash and cash equivalents, end of year	$ 681,181	$ 457,193
Supplemental disclosures of cash flow information:		
Cash paid for interest expense	$ 1,274	$ 500
Non-cash transactions:		
Acquisition of equipment under capital lease	$ 18,200	$ -

See accompanying notes to financial statements.

1. Organization

The Treatment Advocacy Center (the Organization) is a nonprofit organization that was incorporated in Arlington, Virginia and began operations in 1998. The Organization'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 Organization promotes the benefits of treating severe mental illness by compiling information about those benefits and educating individuals, the public, media, lawmakers and policymakers. The Organization's main source of support 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 Organization 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 Organization.

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 Organization's financial statements are presented in accordance with generally accepted accounting principles for nonprofit organizations. Under those principles, the Organization 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.

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 Organization is limited by donor imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by action of the Organization. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

The Organization has no permanently restricted net assets at June 30, 2014 and 2013.

Basis of accounting

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

Use of estimates

The preparation of financial statements in conformity with 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.

Income taxes

The Organization is exempt from federal and local income taxes under Section 501(c)(3) of the Internal Revenue Code on income derived from activities related to its exempt purpose. This code section enables the Organization to accept donations that qualify as charitable contributions to the donor. The Organization is subject to income taxes on taxable income from unrelated business activities. For the years ended June 30, 2014 and 2013, the Organization did not recognize income tax expense in the accompanying financial statements as there was no unrelated business taxable income.

The Organization is not aware of any activities that would jeopardize their tax-exempt status that would require recognition in the accompanying financial statements. 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 Organization's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in the accompanying financial statements. As of June 30, 2014 and 2013, the Organization had no accruals for interest and/or penalties.

Cash and cash equivalents

For financial statement purposes, the Organization classifies demand deposits and short-term investments with an original maturity of three months or less as cash equivalents. At June 30, 2014 and 2013, 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. All contributions receivable are expected to be collected in less than one year and are reported at their net realizable value. Reserves are established for receivables that are delinquent and considered uncollectible based on periodic reviews by management. At June 30, 2014 and 2013, no allowance for doubtful accounts had been recognized.

Inventory

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

Property and equipment

Property and equipment acquisitions are recorded 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 expense 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 and improvements	Life of lease

The Organization's policy is to capitalize major additions and improvements over $1,000. Repairs and maintenance which do not significantly add to the value of assets are expensed as incurred.

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 Organization 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 the Organization'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. 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. This pledge was collected during the year ended June 30, 2014. There were no conditional promises to give at June 30, 2014.

In-kind contributions

Donated materials, services and use of facilities are recorded at fair value when an unconditional commitment is received and are recognized as in-kind contributions 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. The value of such services is recorded based on the estimated fair value of services provided and is classified as in-kind contributions revenue and expense charged to programs and supporting services based on the program or support services directly benefited. 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.

3. Concentrations of credit risk

The Organization maintains bank deposits that, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) limits. At June 30, 2014 and 2013, the Organization had bank deposits in excess of FDIC limits of $440,020 and $36,865, respectively.

4. Property and equipment, net

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

	2014	2013
Website	$ 23,900	$ 6,400
Computer equipment	30,549	46,151
Furniture and equipment	62,065	48,385
Leasehold improvements	7,364	7,364
Property and equipment	123,878	108,300
Accumulated depreciation and amortization	(72,179)	(76,679)
Total property and equipment, net	$ 51,699	$ 31,621

Depreciation and amortization expense for the years ended June 30, 2014 and 2013 was $15,301 and $12,584, respectively.

5. Temporarily restricted net assets

Net assets were released from donor restrictions during the years ended June 30, 2014 and 2013 for the following purposes:

	2014	2013
Judicial education NJ	$ 15,180	$ -
Preventable tragedies database overhaul	2,500	-
Technology infrastructure	-	6,318
AOT cost study	34,246	24,045
AOT roadshow	6,119	1,804
Fundraising video	4,564	208
Research	5,000	-
Total net assets released from restrictions	$ 67,609	$ 32,375

At June 30, 2014 and 2013, temporarily restricted net assets were available for the following purposes:

	2014	2013
Judicial education NJ	$ 69,820	$ -
Preventable tragedies database overhaul	22,500	-
Technology infrastructure	18,682	18,682
AOT cost study	16,709	50,955
AOT roadshow	7,705	13,824
Fundraising video	-	4,564
Research	-	5,000
Total temporarily restricted net assets	$ 135,416	$ 93,025

6. In-kind contributions

The Organization 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 $123,662 and $144,798, for the years ended June 30, 2014 and 2013, respectively, of which $18,052 have been capitalized as property and equipment for the year ended June 30, 2013. No capitalized property and equipment exists for the year ended June 30, 2014. All remaining in-kind goods and services are included in support services as management and general expenses.

7. Concentration of support and revenue risk

The Organization received a substantial portion of its support from one donor. These contributions constituted approximately 41% and 51% of total support and revenue for the years ended June 30, 2014 and 2013, respectively. A significant reduction in the level of this support, if it were to occur, may have a significant effect on the Organization's programs and activities.

8. Commitments

Operating leases

The Organization leases office space in Arlington, Virginia under a non-cancelable lease that was set to expire in June 2015. A lease amendment was signed in April 2014 for a larger space within the building. The amended lease expires in October 2024. The Organization moved into the new space and began making rent payments under the amended lease agreement in August 2014. Base annual rent is adjusted for operating costs, real estate taxes, and the Consumer Price Index. Rent expense for the years ended June 30, 2014 and 2013 was $92,801 and $91,393, respectively.

In addition, the Center has entered into two operating leases for office equipment. The non-cancelable operating leases began in May 2008 and expired in December 2013 and March 2014. The quarterly payments for the leases were $435 and $120. Equipment rent expense was $1,985 and $2,496 for the years ended June 30, 2014 and 2013, respectively.

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

	Office Space
2015	$ 115,485
2016	122,330
2017	125,996
2018	141,608
2019	145,868
2020 and thereafter	855,657
Total	$ 1,506,944

Capital leases

During 2009, the Organization entered into a capital lease to acquire copier equipment. The imputed interest rate on the lease, which matured in February of 2014, was 7.5%. The copier was included in property and equipment and recorded at fair value at the origination of the lease, which was $24,372, less accumulated depreciation of $19,498 at June 30, 2013. As of June 30, 2014, the capital lease had expired and the Organization was allowed to retain the copier.

During 2013, the Organization entered into a new capital lease to acquire copier equipment. The imputed interest rate on the lease is 7.7% and matures in June of 2018. The copier is included in property and equipment and recorded at fair value at the origination of the lease, which was $18,200, less accumulated depreciation of $1,820 at June 30, 2014.

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

2015	$ 4,368
2016	4,368
2017	4,368
2018	4,368
Total	17,472
Less: approximate amount representing interest	(2,473)
Present value of minimum lease payments	$ 14,999

9. Retirement plan

The Organization has a defined contribution retirement plan covering employees who meet certain eligibility requirements. The Organization makes contributions to the plan that equal four percent of employee 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, 2014 and 2013 was $19,940 and $21,680, respectively.

10. Related party transaction

In February 2013, the Organization signed an agreement with a technology company for support services of a business application. The contract is for a period of one year with a subscription fee of $850. There were no payments made to the related party during the year ended June 30, 2014, however the Organization continued to receive services from the company during this time. A member of the Organization's Board of Directors is an investor in and board member of the technology company.

11. Subsequent events

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 21, 2014, which is the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, these financial statements.

SUPPLEMENTAL INFORMATION

TREATMENT ADVOCACY CENTER

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2014

	Program services	Management and general	Fundraising	Total support services	Total expenses
Salaries	$ 580,323	$ 111,360	$ 49,797	$ 161,157	$ 741,480
Retirement plan	15,606	2,995	1,339	4,334	19,940
Employee benefits	40,686	7,807	3,491	11,298	51,984
Payroll taxes	47,996	9,210	4,118	13,328	61,324
Office supplies	3,649	1,809	265	2,074	5,723
Telephone	7,586	1,456	651	2,107	9,693
Postage and shipping	4,568	3,612	2,060	5,672	10,240
Occupancy	72,631	13,938	6,232	20,170	92,801
Equipment rental and maintenance	1,554	298	133	431	1,985
Printing and communications	17,745	7,769	4,667	12,436	30,181
Travel	2,090	12,019	7,285	19,304	21,394
Conferences, conventions and meetings	2,205	14,391	288	14,679	16,884
Depreciation and amortization	1,900	13,401	-	13,401	15,301
Property taxes	-	1,273	-	1,273	1,273
Insurance	-	7,804	-	7,804	7,804
Computer equipment and support	-	5,673	-	5,673	5,673
Dues, subscriptions and reference materials	1,615	413	-	413	2,028
Consulting fees	61,974	-	10,602	10,602	72,576
Service fees	-	6,913	-	6,913	6,913
Bank fees	-	2,803	-	2,803	2,803
In-kind services	-	123,662	-	123,662	123,662
Interest expense	-	1,274	-	1,274	1,274
Total expenses	$ 862,128	$ 349,880	$ 90,928	$ 440,808	$ 1,302,936

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