TREATMENT ADVOCACY CENTER

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2015 AND 2014

Halt Buzas & Powell, LTD
CERTIFIED PUBLIC ACCOUNTANTS • MANAGEMENT CONSULTANTS

TABLE OF CONTENTS

Independent auditors' report..1 - 2

Audited financial statements

Statements of financial position..3

Statements of activities..4 - 5

Statements of cash flows..6 - 7

Notes to financial statements..8 - 17

Supplemental information

Schedules of functional expenses..18 - 19

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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 Organization), which comprise the statements of financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, 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 19-20) 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 28, 2015

TREATMENT ADVOCACY CENTER

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 390,429	$ 681,181
Marketable investment	198,645	-
Accounts receivable	136	6,847
Contributions receivable	181,000	-
Inventory	1,849	2,099
Prepaid expenses	27,834	13,825
Property and equipment, net	55,208	51,699
Deposit	22,218	22,218
Total assets	$ 877,319	$ 777,869
LIABILITIES AND NET ASSETS		
Accounts payable	$ 16,048	$ 11,027
Accrued expenses	47,081	37,848
Capital lease obligation	11,669	14,999
Deferred rent	25,879	-
Total liabilities	100,677	63,874
Net assets:		
Unrestricted	209,173	176,103
Unrestricted, board designated	358,827	402,476
Total unrestricted net assets	568,000	578,579
Temporarily restricted	208,642	135,416
Total net assets	776,642	713,995
Total liabilities and net assets	$ 877,319	$ 777,869

See accompanying notes to financial statements.

TREATMENT ADVOCACY CENTER

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Stanley Foundation contributions	$ 600,000	$ -	$ 600,000
Other contributions	830,995	210,000	1,040,995
In-kind contributions	129,968	-	129,968
Other income	1,292	-	1,292
Interest and dividend income	1,937	-	1,937
Unrealized loss on investment	(1,146)	-	(1,146)
Special event, net of direct benefit costs of $12,404	14,096	-	14,096
Net assets released from restrictions:			
Satisfaction of donor restrictions	136,774	(136,774)	-
Total revenues	1,713,916	73,226	1,787,142
Expenses:			
Program services	1,127,365	-	1,127,365
Support services:			
Management and general	445,698	-	445,698
Fundraising	151,432	-	151,432
Total support services	597,130	-	597,130
Total expenses	1,724,495	-	1,724,495
Change in net assets	(10,579)	73,226	62,647
Net assets, beginning of year	578,579	135,416	713,995
Net assets, end of year	$ 568,000	$ 208,642	$ 776,642

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
Interest and dividend income	1,248	-	1,248
Net assets released from restrictions:			
Satisfaction of donor restrictions	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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ 62,647	$ 159,572
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	16,213	15,301
Unrealized loss on investment	1,146	-
Loss on disposal of property and equipment	-	1,389
Donated property and equipment	(1,448)	-
Deferred rent	25,879	-
Decrease (increase) in assets:		
Accounts receivable	6,711	(6,339)
Contributions receivable	(181,000)	75,000
Inventory	250	221
Prepaid expenses	(14,009)	(988)
Increase (decrease) in liabilities:		
Accounts payable	5,021	3,433
Accrued expenses	9,233	1,941
Total adjustments	(132,004)	89,958
Net cash provided by (used in) operating activities	(69,357)	249,530
Cash flows from investing activities:		
Purchases of marketable investment	(199,791)	-
Purchases of property and equipment	(18,274)	(18,568)
Net cash used in investing activities	(218,065)	(18,568)
Cash flows from financing activities:		
Principal payments on capital lease obligation	(3,330)	(6,974)
Net cash used in financing activities	(3,330)	(6,974)
Net increase (decrease) in cash and cash equivalents	(290,752)	223,988
Cash and cash equivalents, beginning of year	681,181	457,193
Cash and cash equivalents, end of year	$ 390,429	$ 681,181

-- continued --

See accompanying notes to financial statements.

TREATMENT ADVOCACY CENTER

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Supplemental disclosures of cash flow information:		
Cash paid for interest expense	$ 1,038	$ 1,274
Non-cash investing and financing 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, 2015 and 2014.

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.

Fair value measurements

The Organization reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs used to measure fair value are categorized as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities.
- Level 2 - inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.
- Level 3 - unobservable inputs which are typically based on the Organization's own assumptions, as there is little, if any, related market activity.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to the standard. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no level 2 or 3 inputs for any assets, held by the Organization at June 30, 2015.

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, 2015 and 2014, 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 its 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 material omissions of income exist, 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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014, no allowance for doubtful accounts had been recognized.

Inventory

Inventory consists of copies of the book *Madness in the Streets*, which is published by the Organization. Inventory also includes other books purchased by the Organization for promotions, and is stated at the lower of cost or net realizable value by the first-in, first-out method.

Property and equipment, net

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.

Deferred rent and lease incentives

Deferred rent is recorded and amortized to the extent the total minimum rental payments allocated to the current period on a straight-line basis exceed, or are less than, the cash payments required. Lease incentives received as part of a lease agreement are recognized on a straight-line basis over the life of the lease as a reduction to rent expense.

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.

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 Organization. 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, 2015 and 2014, the Organization had bank deposits in excess of FDIC limits in the amounts of $182,318 and $440,020, respectively.

4. Marketable investment

Beginning in 2015, the Board of Directors approved the decision to transfer $199,791 to an exchange-traded fund investment that mirrors a stock index fund. The amount invested had a total fair value of $198,645 at June 30, 2015. Fair value is measured using Level 1 inputs at June 30, 2015 determined by reference to quoted prices in active financial markets.

Realized and unrealized gains and losses are reported in the statements of activites as increases and decreases in unrestricted net assets. For the year ended June 30, 2015, the Organization recognized an unrealized loss in the amount of $1,146.

5. Property and equipment, net

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

	2015	2014
Website	$ 29,900	$ 23,900
Computer equipment	31,997	30,549
Furniture and equipment	74,339	62,065
Leasehold improvements	7,364	7,364
Property and equipment	143,600	123,878
Accumulated depreciation and amortization	(88,392)	(72,179)
Total property and equipment, net	$ 55,208	$ 51,699

Depreciation and amortization expense for the years ended June 30, 2015 and 2014 was $16,213 and $15,301, respectively.

6. Temporarily restricted net assets

Net assets were released from donor restrictions during the years ended June 30, 2015 and 2014 for the following purposes:

	2015	2014
Judicial education NJ	$ 69,820	$ 15,180
Technology infrastructure	42,540	2,500
AOT cost study	16,709	34,246
AOT roadshow	7,705	6,119
Fundraising video	-	4,564
Research	-	5,000
Total net assets released from restrictions	$ 136,774	$ 67,609

At June 30, 2015 and 2014, temporarily restricted net assets comprised of the following:

	2015	2014
Ohio AOT education	$ 110,000	$ -
Super utilizers study	75,000	-
Preventable tragedies database overhaul	22,500	22,500
Technology infrastructure	1,142	18,682
Judicial education NJ	-	69,820
AOT cost study	-	16,709
AOT roadshow	-	7,705
Total temporarily restricted net assets	$ 208,642	$ 135,416

7. 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 Organization also receives in-kind contributions of goods from individual donors. The value of these contributed goods and services totaled $129,968 and $123,662, for the years ended June 30, 2015 and 2014, respectively. All remaining in-kind goods and services are included in support services as management and general expenses.

8. Concentration of support and revenue risk

The Organization received a substantial portion of its support from one donor. These contributions constituted approximately 34% and 41% of total support and revenue for the years ended June 30, 2015 and 2014, 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.

9. 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, 2015 and 2014 was $149,297 and $92,801, respectively.

In addition, the Organization has entered into one operating lease for office equipment. The non-cancelable operating lease began in July 2013 and expires in September 2018. The quarterly payments for the lease were $613. Equipment rent expense was $2,700 and $1,985 for the years ended June 30, 2015 and 2014, respectively.

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

2016	$ 122,330
2017	125,996
2018	141,608
2019	145,868
2020	150,260
2021 and thereafter	705,397
Total	$ 1,391,459

Capital lease

During 2013, the Organization entered into a 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 $5,460 at June 30, 2015.

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

2016	$ 4,368
2017	4,368
2018	4,368
Total	13,104
Less: approximate amount representing interest	(1,435)
Present value of minimum lease payments	$ 11,669

10. 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, 2015 and 2014 was $22,891 and $19,940, respectively.

11. Subsequent events

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 28, 2015, 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, 2015

	Program services	Management and general	Fundraising	Total support services	Total expenses
Salaries	$ 706,027	$ 139,342	$ 68,110	$ 207,452	$ 913,479
Retirement plan	17,692	3,492	1,707	5,199	22,891
Employee benefits	60,465	11,933	5,833	17,766	78,231
Payroll taxes	55,448	10,943	5,349	16,292	71,740
Office supplies	14,583	2,878	1,557	4,435	19,018
Telephone	7,811	1,542	754	2,296	10,107
Postage and shipping	2,370	2,909	3,833	6,742	9,112
Occupancy	115,391	22,774	11,132	33,906	149,297
Equipment rental and maintenance	2,087	412	201	613	2,700
Printing and communications	36,858	5,708	5,699	11,407	48,265
Travel	32,444	10,402	2,175	12,577	45,021
Conferences, conventions and meetings	20,384	13,978	43	14,021	34,405
Depreciation and amortization	-	16,213	-	16,213	16,213
Property taxes	-	1,940	-	1,940	1,940
Insurance	-	7,705	-	7,705	7,705
Computer equipment and support	941	26,575	91	26,666	27,607
Dues, subscriptions and reference materials	2,569	6	-	6	2,575
Consulting fees	49,063	13,700	44,948	58,648	107,711
Service fees	3,232	17,841	-	17,841	21,073
Bank fees	-	5,847	-	5,847	5,847
In-kind services	-	128,520	-	128,520	128,520
Interest expense	-	1,038	-	1,038	1,038
Total expenses	$ 1,127,365	$ 445,698	$ 151,432	$ 597,130	$ 1,724,495

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