SIKICH

*Treatment Advocacy Center*

Financial Statements
and
Independent Auditor's Report

June 30, 2022 and 2021

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# Independent Auditor's Report

To the Board of Directors
Treatment Advocacy Center
Arlington, Virginia

*Opinion*

We have audited the accompanying financial statements of Treatment Advocacy Center (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

*Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Treatment Advocacy Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Treatment Advocacy Center's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Treatment Advocacy Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Treatment Advocacy Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Sikich LLP

Alexandria, Virginia
January 9, 2023

# Treatment Advocacy Center

## Statements of Financial Position

### June 30, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| **Assets** | | |
| Cash | $ 922,395 | $ 280,083 |
| Marketable investments | 17,731 | 112,519 |
| Contributions receivable | 48,000 | 300,000 |
| Contracts receivable | 27,909 | 36,277 |
| Inventory | - | 363 |
| Prepaid expenses | 57,909 | 42,319 |
| Deposit | 22,218 | 22,218 |
| Property and equipment, net | 92,890 | 56,139 |
| Marketable investments, board-designated | 1,207,419 | 1,120,667 |
| Total assets | $ 2,396,471 | $ 1,970,585 |
| **Liabilities and Net Assets** | | |
| Accounts payable | $ 39,110 | $ 11,883 |
| Accrued expenses | 125,992 | 128,903 |
| Deferred revenue | 15,417 | 15,000 |
| Capital lease obligation | - | 4,192 |
| Deferred rent | 49,779 | 62,907 |
| Refundable advance | - | 261,422 |
| Total liabilities | 230,298 | 484,307 |
| Net assets: | | |
| Without donor restrictions | 704,640 | 244,268 |
| Without donor restrictions, board-designated | 1,207,419 | 1,165,660 |
| Total without donor restrictions | 1,912,059 | 1,409,928 |
| With donor restrictions | 254,114 | 76,350 |
| Total net assets | 2,166,173 | 1,486,278 |
| Total liabilities and net assets | $ 2,396,471 | $ 1,970,585 |

Treatment Advocacy Center

Statement of Activities

For the Year Ended June 30, 2022

| | Without donor restrictions | With donor restrictions | Total |
|---|---|---|---|
| Revenues: | | | |
| Other contributions | $ 1,929,501 | $ 344,308 | $ 2,273,809 |
| Stanley Foundation contributions | 600,000 | - | 600,000 |
| Contract revenue | 216,377 | - | 216,377 |
| In-kind contributions | 59,310 | - | 59,310 |
| Other income | 3,854 | - | 3,854 |
| Investment loss, net | (159,462) | - | (159,462) |
| Net assets released from restrictions: | | | |
| Satisfaction of donor restrictions | 166,544 | (166,544) | - |
| Total revenues | 2,816,124 | 177,764 | 2,993,888 |
| Expenses: | | | |
| Program services: | | | |
| Education and advocacy | 1,645,450 | - | 1,645,450 |
| Support services: | | | |
| Management and general | 509,004 | - | 509,004 |
| Fundraising | 159,539 | - | 159,539 |
| Total support services | 668,543 | - | 668,543 |
| Total expenses | 2,313,993 | - | 2,313,993 |
| Change in net assets | 502,131 | 177,764 | 679,895 |
| Net assets, beginning of year | 1,409,928 | 76,350 | 1,486,278 |
| Net assets, end of year | $ 1,912,059 | $ 254,114 | $ 2,166,173 |

Treatment Advocacy Center

Statement of Activities

For the Year Ended June 30, 2021

| | Without donor restrictions | With donor restrictions | Total |
|---|---|---|---|
| Revenues: | | | |
| Other contributions | $ 1,092,183 | $ 343,702 | $ 1,435,885 |
| Stanley Foundation contributions | 600,000 | - | 600,000 |
| Investment income, net | 260,093 | - | 260,093 |
| Contract revenue | 233,374 | - | 233,374 |
| In-kind contributions | 142,854 | - | 142,854 |
| Other income | 1,356 | - | 1,356 |
| Net assets released from restrictions: | | | |
| Satisfaction of donor restrictions | 338,695 | (338,695) | - |
| Total revenues | 2,668,555 | 5,007 | 2,673,562 |
| Expenses: | | | |
| Program services: | | | |
| Education and advocacy | 1,304,634 | - | 1,304,634 |
| Support services: | | | |
| Management and general | 693,028 | - | 693,028 |
| Fundraising | 144,945 | - | 144,945 |
| Total support services | 837,973 | - | 837,973 |
| Total expenses | 2,142,607 | - | 2,142,607 |
| Change in net assets | 525,948 | 5,007 | 530,955 |
| Net assets, beginning of year | 883,980 | 71,343 | 955,323 |
| Net assets, end of year | $ 1,409,928 | $ 76,350 | $ 1,486,278 |

See accompanying notes to the financial statements.

Treatment Advocacy Center

Statement of Functional Expenses

For the Year Ended June 30, 2022

| | Education and advocacy | Management and general | Fundraising | Total support services | Total expenses |
|---|---|---|---|---|---|
| Salaries | $ 1,002,244 | $ 138,200 | $ 110,954 | $ 249,154 | $ 1,251,398 |
| Retirement plan | 37,233 | 5,134 | 4,122 | 9,256 | 46,489 |
| Employee benefits | 59,048 | 10,332 | 6,286 | 16,618 | 75,666 |
| Payroll taxes | 81,602 | 11,252 | 9,034 | 20,286 | 101,888 |
| Office supplies | 9,038 | 1,902 | 3,392 | 5,294 | 14,332 |
| Telephone | 14,329 | 3,261 | 1,575 | 4,836 | 19,165 |
| Postage and shipping | 1,293 | 794 | 1,228 | 2,022 | 3,315 |
| Occupancy | 117,739 | 16,235 | 13,034 | 29,269 | 147,008 |
| Equipment rental and maintenance | 2,486 | 331 | 266 | 597 | 3,083 |
| Printing and communications | 40,816 | 976 | 3,310 | 4,286 | 45,102 |
| Travel | 31,314 | 14,940 | - | 14,940 | 46,254 |
| Conferences, conventions and meetings | 1,490 | 445 | - | 445 | 1,935 |
| Depreciation and amortization | - | 23,244 | - | 23,244 | 23,244 |
| Property taxes and state registration fees | - | 12,725 | - | 12,725 | 12,725 |
| Insurance | 36 | 10,683 | - | 10,683 | 10,719 |
| Computer equipment and support | 13,922 | 46,463 | 1,391 | 47,854 | 61,776 |
| Dues, subscriptions and reference materials | 4,442 | 16,288 | 1,124 | 17,412 | 21,854 |
| Consulting fees | 224,878 | 59,220 | - | 59,220 | 284,098 |
| Service fees | 3,540 | 21,695 | 3,823 | 25,518 | 29,058 |
| Bank fees | - | 1,348 | - | 1,348 | 1,348 |
| Interest expense | - | 3,408 | - | 3,408 | 3,408 |
| Accounting fees | - | 108,713 | - | 108,713 | 108,713 |
| Bad debt expense | - | 1,415 | - | 1,415 | 1,415 |
| Total expenses | $ 1,645,450 | $ 509,004 | $ 159,539 | $ 668,543 | $ 2,313,993 |

See accompanying notes to the financial statements

Treatment Advocacy Center

Statement of Functional Expenses

For the Year Ended June 30, 2021

| | Education and advocacy | Management and general | Fundraising | Total support services | Total expenses |
|---|---|---|---|---|---|
| Salaries | $ 902,009 | $ 332,762 | $ 108,060 | $ 440,822 | $ 1,342,831 |
| Retirement plan | 27,292 | 10,068 | 3,270 | 13,338 | 40,630 |
| Employee benefits | 51,531 | 22,666 | 6,173 | 28,839 | 80,370 |
| Payroll taxes | 71,348 | 26,321 | 8,547 | 34,868 | 106,216 |
| Office supplies | 15,994 | 6,062 | 1,916 | 7,978 | 23,972 |
| Telephone | 11,030 | 12,382 | 1,321 | 13,703 | 24,733 |
| Postage and shipping | 1,595 | 257 | 967 | 1,224 | 2,819 |
| Occupancy | 98,502 | 36,339 | 11,800 | 48,139 | 146,641 |
| Equipment rental and maintenance | 2,122 | 783 | 254 | 1,037 | 3,159 |
| Printing and communications | 52,555 | 4,027 | 2,421 | 6,448 | 59,003 |
| Travel | 9,730 | 9,521 | - | 9,521 | 19,251 |
| Conferences, conventions and meetings | 2,670 | 1,618 | - | 1,618 | 4,288 |
| Depreciation and amortization | - | 8,873 | - | 8,873 | 8,873 |
| Property taxes and state registration fees | - | 11,556 | - | 11,556 | 11,556 |
| Insurance | - | 9,794 | - | 9,794 | 9,794 |
| Computer equipment and support | 1,807 | 23,366 | 216 | 23,582 | 25,389 |
| Dues, subscriptions and reference materials | 4,358 | 6,353 | - | 6,353 | 10,711 |
| Consulting fees | 46,644 | 7,925 | - | 7,925 | 54,569 |
| Service fees | 5,447 | 49,719 | - | 49,719 | 55,166 |
| Bank fees | - | 2,489 | - | 2,489 | 2,489 |
| Interest expense | - | 2,998 | - | 2,998 | 2,998 |
| Accounting fees | - | 107,149 | - | 107,149 | 107,149 |
| Total expenses | $ 1,304,634 | $ 693,028 | $ 144,945 | $ 837,973 | $ 2,142,607 |

See accompanying notes to the financial statements

Treatment Advocacy Center

Statements of Cash Flows

For the Years Ended June 30, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 679,895 | $ 530,955 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 23,244 | 8,873 |
| Unrealized loss (gain) on investments | 213,589 | (182,039) |
| Realized gain on investment | (12,377) | (49,014) |
| Donated investments | (96,011) | (58,283) |
| Deferred rent | (13,128) | (8,471) |
| Bad debt expense | 1,415 | - |
| Decrease (increase) in assets: | | |
| Contributions receivable | 252,000 | (300,000) |
| Contracts receivable | 6,953 | (18,937) |
| Inventory | 363 | - |
| Prepaid expenses | (15,590) | (11,097) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 27,227 | 355 |
| Accrued expenses | (2,911) | (20,760) |
| Deferred revenue | 417 | 15,000 |
| Refundable advance | (261,422) | 13,022 |
| Total adjustments | 123,769 | (611,351) |
| Net cash provided by (used in) operating activities | 803,664 | (80,396) |
| Cash flows from investing activities: | | |
| Purchases of marketable investments | (285,945) | (181,672) |
| Proceeds from sales of marketable investments | 188,780 | 108,225 |
| Purchases of property and equipment | (59,995) | (42,887) |
| Net cash used in investing activities | (157,160) | (116,334) |
| Cash flows from financing activities: | | |
| Principal payments on capital lease obligation | (4,192) | (3,882) |
| Net cash used in financing activities | (4,192) | (3,882) |
| Net increase (decrease) in cash | 642,312 | (200,612) |
| Cash, beginning of year | 280,083 | 480,695 |
| Cash, end of year | $ 922,395 | $ 280,083 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest expense | $ 3,408 | $ 2,998 |
| Issuance of Paycheck Protection Program loan | $ - | $ 261,422 |
| Forgiveness of Paycheck Protection Program loan | $ 261,422 | $ 248,400 |

See accompanying notes to the 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

### a. Basis of presentation

The Organization's financial statements are presented in accordance with accounting principles generally accepted in the United States of America (USGAAP) for nonprofit organizations. Under those principles, the Organization is required to report information regarding its financial position and activities according to two classes of net assets:

- *Net Assets Without Donor Restrictions* represent resources that are not subject to donor imposed restrictions and are available for operations at management's discretion. Included in net assets without donor restrictions are $1,207,419 and $1,165,660 at June 30, 2022 and 2021, respectively, of board-designated funds. These funds may be used for implementation of the Organization's strategic plan and any activities approved by the board. During the year ended June 30, 2021, $288,332 of board-designated funds were used. No board-designated funds were used during the year ended June 30, 2022.

- *Net Assets With Donor Restrictions* represent resources restricted by donors. Some donor restrictions are temporary in nature and those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

### b. Basis of accounting

The Organization's financial statements are prepared on the accrual basis of accounting in accordance with USGAAP.

### c. Use of estimates

The preparation of financial statements in conformity with USGAAP 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.

d. Fair value measurements

USGAAP establishes a framework for measuring fair value. The framework uses a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. USGAAP requires the Organization to maximize the use of observable inputs when measuring fair value. The hierarchy describes three levels of inputs, which are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Significant unobservable inputs.

In many cases, a valuation technique used to measure fair value includes inputs from more than one level of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The categorization of an investment within the hierarchy reflects the relative ability to observe the fair value measure and does not necessarily correspond to the perceived risk of that investment.

Valuation techniques

Following is a description of the valuation techniques used for assets measured at fair value on a recurring basis. There have been no changes to the techniques used during the years ended June 30, 2022 and 2021. There were no Level 2 and Level 3 inputs for any assets held by the Organization at June 30, 2022 and 2021.

- Mutual funds: valued at the NAV of shares on the last trading day of the fiscal year.
- Exchange-traded fund: valued at the closing quoted price in an active market.

e. Income taxes

The Organization is exempt from federal and local income taxes under Section 501(c)(3) of the Internal Revenue Code and similar provision of state law. The Organization is not classified as a private foundation.

f. 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, 2022 and 2021, management estimates that all receivables are fully collectible, therefore no allowance for doubtful accounts have been recognized. However, write-offs may occur.

g. Contracts receivable

Contracts receivable are due in less than one year and stated 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, 2022 and 2021, all receivables are fully collectible, therefore, no allowance for doubtful accounts has been recognized. However, write-offs may occur.

h. Investments

Investments are reported at fair value and realized and unrealized gains and losses are reported in the statements of activities as increases or decreases in net assets without donor restrictions, unless the income or loss is restricted by donor restrictions or law. The Organization invests in a variety of investments that are exposed to various risks, such as fluctuations in market value and credit risk. It is reasonably possible that changes in risks in the near term could materially affect investment balances and amounts reported in the accompanying financial statements. Donated securities are recorded at their fair value on the date of the donation. Investment income is reported net of external and direct internal investment expenses.

i. 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.

j. 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 fixtures | 5 years |

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.

k. 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.

l. Revenue recognition

*Contributions*: The Organization recognizes other contributions and Stanley Foundation contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received.

The Organization reports gifts of cash and other assets as donor 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, donor restricted net assets are reclassified to net assets without donor restrictions 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. Conditional amounts received prior to all conditions being met are recorded as refundable advances on the accompanying statements of financial position. There were no conditional contributions awarded, but not received at June 30, 2022 and 2021.

*Contracts*: Contract revenue is measured based on the consideration specified in a contract with a customer. The Organization provides learning material and performs research studies as a subrecipient of cost plus fixed fee federal contracts. The Organization recognizes revenue over time, each month, to the extent of hours worked, expenses incurred and indirect cost allocated to the contract, based primarily on the input method which is contract costs incurred to date compared to total estimated cost, plus the fee earned. This method is the most accurate depiction of the Organization's performance because it directly measures the value of the services transferred to the customer. Determining when control transfers requires management to make judgments that affect the timing of revenue recognized. The Organization believes that methods used provide a faithful depiction of the transfer of control of its products and services. Payments are typically due within thirty days of billing. The revenue stream described does not include variable consideration estimated by the Organization.

*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.

m. Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. The financial statements report certain categories of expenses that are attributable to the program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Accordingly, certain costs, such as salaries, retirement plan, employee benefits, payroll taxes, office supplies, telephone, postage and shipping, occupancy, and equipment rental and maintenance have been allocated among programs and supporting services based on staff level of effort.

n. Adoption of new accounting standard

In September 2020, the FASB issued ASU 2020-07 on Topic 958, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard requires nonprofits to change their financial statement presentation and disclosure of contributed nonfinancial assets, or gifts-in-kind. The standard is effective for annual reporting periods beginning after June 15, 2021, and interim periods with annual reporting periods beginning after June 15, 2022. The Organization adopted the requirements of the new standard with the disclosure of contributed nonfinancial assets shown in Note 11. The adoption of the standard did not have an impact on the recognition of contributed nonfinancial assets.

o. Emerging accounting pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability about leases among entities. The new guidance requires lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. It also requires additional disclosure about leasing arrangements. ASU No. 2016-02, as amended by 2020-05, is effective for nonprofit entities for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. ASU No. 2016-02 originally specified a modified retrospective transition method which requires the entity to initially apply the new lease standard at the beginning of the earliest period presented in the financial statements.

In July 2018, FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, providing a second, optional transition method which allows the entity to apply the new standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of net assets in the period of adoption. The Organization is currently assessing the impacts of this new standard, including the two optional transition methods.

## 3. Liquidity and Availability

The following represents the Organization's financial assets at June 30:

| Financial assets at year end: | 2022 | 2021 |
|---|---|---|
| Cash | $ 922,395 | $ 280,083 |
| Marketable investments | 1,225,150 | 1,233,186 |
| Contributions receivable | 48,000 | 300,000 |
| Contracts receivable | 27,909 | 36,277 |
| Total financial assets | 2,223,454 | 1,849,546 |
| Less amounts not available within one year: | | |
| Restricted by donor with purpose restrictions | (254,114) | (76,350) |
| Board-designated amount set aside for sustainability | (1,207,419) | (1,165,660) |
| Total | (1,461,533) | (1,242,010) |
| Financial assets available to meet general expenditures within one year | $ 761,921 | $ 607,536 |

The Organization's goal is generally to maintain liquid financial assets to meet ninety days of operating expenses. As part of its liquidity plan, board-designated reserves are invested in short term investments, including money market accounts and other marketable investments. Additionally, the Organization's board designated a fund intended for long term sustainability. The sustainability fund is invested in mutual funds and released in annual increments to fund operations, if necessary.

## 4. Concentrations of Credit Risk

The Organization maintains bank deposits that, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) limits. At June 30, 2022 and 2021, the Organization had bank deposits in excess of FDIC limits of $422,395 and $30,083, respectively. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

## 5. Investments and Fair Value Measurements

Assets measured at fair value on a recurring basis as of June 30, 2022 are follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Exchange-traded fund | $ 17,731 | $ - | $ - | $ 17,731 |
| Mutual fund | 1,201,932 | - | - | 1,201,932 |
| Total assets | $ 1,219,663 | $ - | $ - | 1,219,663 |
| Cash (reported at cost) | | | | 5,487 |
| Total investments | | | | $ 1,225,150 |

Assets measured at fair value on a recurring basis as of June 30, 2021 are follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Exchange-traded fund | $ 112,519 | $ - | $ - | $ 112,519 |
| Mutual fund | 1,120,667 | - | - | 1,120,667 |
| Total assets | $ 1,233,186 | $ - | $ - | $ 1,233,186 |

## 6. Property and Equipment, Net

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

| | 2022 | 2021 |
|---|---|---|
| Website | $ 127,653 | $ 81,870 |
| Computer equipment | 33,858 | 19,647 |
| Furniture and equipment | 49,578 | 49,578 |
| Property and equipment | 211,089 | 151,095 |
| Accumulated depreciation and amortization | (118,199) | (94,956) |
| Total property and equipment, net | $ 92,890 | $ 56,139 |

## 7. Refundable Grant Advance

The Paycheck Protection Program is a low interest Small Business Administration (SBA) loan and may be forgiven entirely if the borrower maintains certain staffing levels and the proceeds are used for qualified expenses over the qualified period of time. The Organization was approved for a loan in April 2020 under this program in the amount of $248,400. The first loan was forgiven in April 2021 and is included as other contributions on the accompanying statement of activities for the year ended June 30, 2021. The Organization was approved for a second loan in March 2021 under this program in the amount of $261,422. The second loan was forgiven in June 2022 and is included as other contributions on the accompanying statement of activities for the year ended June 30, 2022.

## 8. Net Assets With Donor Restrictions

Net assets were released from donor restrictions during the years ended June 30, 2022 and 2021 for the following purposes:

| | 2022 | 2021 |
|---|---|---|
| Midwest Mental Health | $ 148,243 | $ 167,621 |
| AOT Symposium | 14,500 | 19,872 |
| AOT Conference | 3,801 | - |
| DJ Jaffe Advocacy Fund | - | 151,202 |
| Total net assets released from restrictions | $ 166,544 | $ 338,695 |

At June 30, 2022 and 2021, net assets with donor restrictions were comprised of the following:

| | 2022 | 2021 |
|---|---|---|
| Midwest mental health | $ 76,107 | $ 61,850 |
| AOT Conference | 130,007 | - |
| Time restricted | 48,000 | - |
| AOT Symposium | - | 14,500 |
| Total net assets with donor restrictions | $ 254,114 | $ 76,350 |

## 9. Related Party Transactions

The Organization received total contributions from board members of $30,322 and $48,803 for the years ended June 30, 2022 and 2021, respectively.

## 10. Sustainability Fund

The Organization's quasi-endowment consists of funds which are designated by the Board of Directors for long-term sustainability. As required by USGAAP, endowment funds that are board-designated and do not contain any donor-imposed restrictions are classified as net assets without donor restrictions.

*Investment Return Objectives, Risk Parameters and Strategies.* The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

*Spending Policy*. The Organization has a policy of appropriating for distribution each year 5% of its endowment balance. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, and the possible effects of inflation.

Change in quasi-endowment net assets for the year ended June 30, 2022 was:

| | Without Donor Restrictions |
|---|---|
| Quasi-endowment net assets, beginning of year | $ 1,165,660 |
| Investment return | |
| Investment income, net | 40,744 |
| Net appreciation | (198,985) |
| Total investment return | (158,241) |
| Amounts appropriated for expenditures | - |
| Contributions | 200,000 |
| Quasi-endowment net assets, end of year | $ 1,207,419 |

Change in quasi-endowment net assets for the year ended June 30, 2021 was:

| | Without Donor Restrictions |
|---|---|
| Quasi-endowment net assets, beginning of year | $ 848,663 |
| Investment return | |
| Investment income, net | 28,130 |
| Net appreciation | 185,590 |
| Total investment return | 213,720 |
| Amounts appropriated for expenditure | (96,723) |
| Contributions | 200,000 |
| Quasi-endowment net assets, end of year | $ 1,165,660 |

## 11. In-kind Contributions

The Organization received the following contributions of nonfinancial assets for the years ended June 30:

| | 2022 | 2021 |
|---|---|---|
| Accounting and auditing services | $ 42,357 | $ 107,149 |
| State registration fees | 4,802 | 10,079 |
| Other services | 3,267 | 13,480 |
| Health, life and disability insurance | 2,502 | 4,721 |
| Subtotal | 52,928 | 135,429 |
| Personnel salaries and benefits | 6,382 | 7,425 |
| Total contributed nonfinancial assets | $ 59,310 | $ 142,854 |

The Organization receives in-kind contributions of accounting and administrative services from The Stanley Medical Research Institute (SMRI). All donated services are utilized by the Organization's management and general function. There were no donor-imposed restrictions associated with the donated services.

Contributed accounting and auditing services are services provided to the Organization with the invoices paid by SMRI. Similarly, state registration fees, other services, and health, life, and disability insurance invoices are paid by SMRI on behalf the Organization. The contributed nonfinancial assets are estimated based on the invoices which approximate cost.

The Organization also receives contributed services from SMRI in the form of personnel salaries and benefits. The personnel salaries and benefits are reported using the personnel's current rates for the salaries and benefits.

## 12. Concentrations of Support Revenue Risk

The Organization received a substantial portion of its support from two donors for the year ended June 30, 2022 and one donor for the year ended June 30, 2021. These contributions constituted approximately 47% and 25% of total support and revenue, respectively. Any significant reduction in revenue and support may adversely impact the Organization financial position and operations.

## 13. Disaggregation of Revenue and Contract Balances

Revenue and related profit from research and learning material contracts is recognized as the Organization's performance obligations are satisfied over time. The Organization entered into one year contracts with two non-profit organizations in the United States of America who receive federal funding. The contracts are cost plus fixed fee agreements and the Organization bills for costs incurred on a monthly basis. As a subcontractor receiving federal funds, the Organization develops online learning modules on Assisted Outpatient Treatment and performs research studies on mental disorders.

Various economic factors affect the recognition of revenue and cash flows, including the Organization's ability to conduct research and provide learning material. Any negative economic impact to the area could significantly affect revenues and cash slows. Additionally, cost-based contracts involve less risk, but often are less profitable. No significant events occurred that had a material impact on the Organization's revenue recognition or cash flows for the years ended June 30, 2022 and 2021.

The timing of revenue recognition, billings and cash collections results in billed contracts receivable (contract assets) and deferred revenue (contract liabilities) on the statements of financial position. Deferred revenue is liquidated when services are performed or events have occurred.

The beginning and ending contract balances were as follows at June 30:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| Contracts receivables | $ 27,909 | $ 36,277 | $ 17,340 |
| Deferred revenue | $ 15,417 | $ 15,000 | $ - |

## 14. Commitments

Operating leases

The Organization leases office space in Arlington, Virginia under a non-cancelable lease that was amended to expire in October 2024. Base annual rent is adjusted for operating costs, real estate taxes, and the Consumer Price Index. Rent expense for the years ended June 30, 2022 and 2021 was $147,008 and $146,641, respectively.

In addition, the Organization has entered into one operating lease for office equipment. The non-cancelable operating lease began in July 2013 and was set to expire in September 2018. The lease was renewed in February 2018 and expires in May 2023. The quarterly payments for the lease were $621. Equipment rent expense was $3,001 and $3,159 for the years ended June 30, 2022 and 2021, respectively.

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

| | Office Space | Equipment | Total |
|---|---|---|---|
| 2023 | $ 164,228 | $ 2,070 | $ 166,298 |
| 2024 | 169,149 | - | 169,149 |
| 2025 | 57,797 | - | 57,797 |
| Total | $ 391,174 | $ 2,070 | $ 393,244 |

Capital lease

During 2018, the Organization entered into a capital lease to acquire copier equipment. The imputed interest rate on the lease was 7.7% and matured in June of 2022. The copier was included in property and equipment and recorded at fair value at the origination of the lease, which was $18,200, less accumulated depreciation of $18,200 and $14,560, at June 30, 2022 and 2021, respectively.

## 15. 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, 2022 and 2021 was $46,489 and $40,630, respectively.

## 16. Subsequent Events

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 9, 2023, which is the date the financial statements were available to be issued. There were no additional subsequent events that require recognition of, or disclosure in, these financial statements.