



**TREATMENT TRENDS, INC.  
(A Not-for-Profit Corporation)**

**Financial Statements,  
Independent Auditors' Report  
and Supplementary Information**

**June 30, 2016**

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
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## INDEPENDENT AUDITORS' REPORT

Boards of Directors  
Treatment Trends, Inc.  
Allentown, PA

### Report on the Financial Statements

We have audited the accompanying financial statements of TREATMENT TRENDS, INC. (A Not-for-Profit Corporation) which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 Treatment Trends, Inc., as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Reporting Required by *Government Auditing Standards***

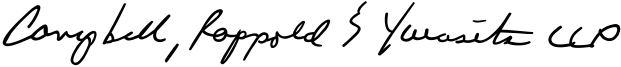
In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016, on our consideration of Treatment Trends, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Treatment Trends, Inc.'s internal control over financial reporting and compliance.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule on page 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

## **Report on Summarized Comparative Information**

We have previously audited the Treatment Trends, Inc.'s 2015 financial statements, and our report dated October 28, 2015, except for Note 5, as to which the date is November 20, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

  
Cong Bell, Rappold & Yucasita LLP  
Certified Public Accountants  
Allentown, PA

November 21, 2016

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2016 and 2015**

	June 30, 2016	June 30, 2015
<b>Assets</b>		
Cash and Cash Equivalents	\$ 48,914	\$ 261,869
Accounts and Grants Receivable, Less Allowance of \$20,000 in 2016 and 2015 (Note 2)	836,453	797,770
Prepaid Expenses	32,189	26,685
Intangible Assets (Note 3)	37,356	48,289
Land, Building, and Equipment (Net of Accumulated Depreciation) (Notes 2 and 4)	2,041,464	2,213,750
<b>Total Assets</b>	<b>\$ 2,996,376</b>	<b>\$ 3,348,363</b>
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts Payable	\$ 305,971	\$ 192,365
Accrued Unemployment Compensation	45,764	67,222
Line of Credit (Note 5)	141,000	-
Long Term Debt (Note 5)	1,087,379	1,209,922
Cash Flow Derivative Financial Instrument (Note 6)	412	13,154
<b>Total Liabilities</b>	1,580,526	1,482,663
 <b>Unrestricted Net Assets</b>		
Unrestricted and Expended on Property and Equipment	954,085	1,003,828
Unrestricted and Designated by the Board for:		
Directors' Discretionary Expenses	500	500
Art Therapy Instructors	-	8,550
Unrestricted and Undesignated	416,523	701,898
<b>Total Unrestricted Net Assets</b>	1,371,108	1,714,776
 <b>Temporarily Restricted Net Assets (Note 7)</b>	 44,742	 150,924
 <b>Total Net Assets</b>	 1,415,850	 1,865,700
 <b>Total Liabilities and Net Assets</b>	 <b>\$ 2,996,376</b>	 <b>\$ 3,348,363</b>

See notes to financial statements.

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For Year Ended June 30, 2016 and 2015**

	<u>Year Ended June 30, 2016</u>	<u>Year Ended June 30, 2015</u>
<b><u>Changes in Unrestricted Net Assets:</u></b>		
<b>Revenues, Gains, and Other Support:</b>		
Contributions	\$ 39,708	\$ 170,173
Fees for Services	6,508,190	6,456,584
Investment Income	1	1
Rental Income	32,287	33,036
Unrealized Gain on Cash Flow		
Derivate Financial Instrument	12,742	12,365
Net Assets Released from Restrictions	<u>106,375</u>	<u>99,503</u>
<b>Total Revenue, Gains, and Other Support</b>	<u>6,699,303</u>	<u>6,771,662</u>
<b>Expenses:</b>		
Program Services-		
Resident Counseling	4,122,633	4,074,574
Drug Abuse Prevention and Treatment	696,547	722,760
TCAP	126,282	114,207
Richard S. Csandl Recovery House	24,973	27,214
Halfway Home of the Lehigh Valley	1,280,292	1,212,299
5th Street Property	<u>236,794</u>	<u>257,998</u>
Total Program Services	<u>6,487,521</u>	<u>6,409,052</u>
Supporting Services-		
Management and General	428,675	483,444
Fundraising	<u>126,775</u>	<u>119,259</u>
Total Supporting Services	<u>555,450</u>	<u>602,703</u>
<b>Total Expenses</b>	<u>7,042,971</u>	<u>7,011,755</u>
Decrease in Unrestricted Net Assets	<u>(343,668)</u>	<u>(240,093)</u>
<b><u>Changes in Temporarily Restricted Net Assets:</u></b>		
Investment Income	193	419
Net Assets Released from Restrictions	<u>(106,375)</u>	<u>(99,503)</u>
Decrease in Temporarily Restricted Net Assets	<u>(106,182)</u>	<u>(99,084)</u>
<b>Decrease in Net Assets</b>	<u>(449,850)</u>	<u>(339,177)</u>
Net Assets at Beginning of Year	<u>1,865,700</u>	<u>2,204,877</u>
Net Assets at End of Year	<u>\$ 1,415,850</u>	<u>\$ 1,865,700</u>

See notes to financial statements.

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended June 30, 2016**  
**With Comparative Totals for Year Ended June 30, 2015**

	Year ended June 30, 2016							June 30, 2016		Total Year Ended 6/30/2016	Total Year Ended 6/30/2015
	Program Services							Supporting Services			
	Keenan Counseling	Confront	TCAP	Richard S. Csandl Recovery House	Halfway Home of LV	5th Street	Total	Management and General	Fund Raising		
Salaries	\$ 1,966,376	\$ 439,884	\$ 61,095	\$ 7,111	\$ 615,396	\$ -	\$ 3,089,862	\$ 231,271	\$ 94,815	\$ 3,415,948	\$ 3,392,413
Employee Benefits	795,292	153,958	40,613	-	196,764	-	1,186,627	99,734	24,546	1,310,907	1,304,377
Payroll Taxes	178,954	43,200	5,624	793	56,518	-	285,089	22,614	7,414	315,117	312,748
<b>Total</b>	<b>\$ 2,940,622</b>	<b>\$ 637,042</b>	<b>\$ 107,332</b>	<b>\$ 7,904</b>	<b>\$ 868,678</b>	<b>\$ -</b>	<b>\$ 4,561,578</b>	<b>\$ 353,619</b>	<b>\$ 126,775</b>	<b>\$ 5,041,972</b>	<b>\$ 5,009,538</b>
Consultant and Contract Service Fee	117,047	5,214	139	-	42,828	907	166,135	14,655	-	180,790	167,372
Food	478,579	1,265	-	-	145,036	-	624,880	-	-	624,880	623,454
Housekeeping	86,963	1,413	234	1,145	22,862	1,250	113,867	-	-	113,867	117,211
Laundry Service	3,817	-	-	-	1,477	9	5,303	-	-	5,303	5,442
Medical Supplies	55,032	-	10,123	-	15,549	-	80,704	-	-	80,704	77,742
Other Client-Oriented Services	27,608	-	-	-	7,951	(44)	35,515	-	-	35,515	27,923
Occupancy	204,367	16,798	4,856	11,946	121,000	43,878	402,845	42,577	-	445,422	416,930
Equipment Maintenance and Rental	15,018	10,029	140	409	3,409	-	29,005	2,982	-	31,987	24,812
Training, Tuition and Conferences	41,675	3,623	766	-	8,126	(8)	54,182	-	-	54,182	80,787
Office Supplies	25,724	7,045	1,833	-	10,867	(23)	45,446	4,610	-	50,056	53,863
Postage and Printing	2,924	45	40	-	827	-	3,836	446	-	4,282	4,935
Dues and Subscriptions	19,244	332	112	-	1,408	-	21,096	2,723	-	23,819	24,483
Insurance	23,195	4,252	665	456	7,324	2,789	38,681	3,869	-	42,550	40,891
Interest Expense	16,535	-	-	-	-	37,810	54,345	-	-	54,345	59,759
Miscellaneous	14,985	6,521	42	900	3,831	4,120	30,399	3,194	-	33,593	38,290
<b>Total Before Depreciation</b>	<b>\$ 4,073,335</b>	<b>\$ 693,579</b>	<b>\$ 126,282</b>	<b>\$ 22,760</b>	<b>\$ 1,261,173</b>	<b>\$ 90,688</b>	<b>\$ 6,267,817</b>	<b>\$ 428,675</b>	<b>\$ 126,775</b>	<b>\$ 6,823,267</b>	<b>\$ 6,773,432</b>
Amorization	-	-	-	-	10,933	-	10,933	-	-	10,933	10,933
Depreciation of Building and Equipment	49,298	2,968	-	2,213	8,186	146,106	208,771	-	-	208,771	227,390
<b>TOTAL EXPENSE</b>	<b>\$ 4,122,633</b>	<b>\$ 696,547</b>	<b>\$ 126,282</b>	<b>\$ 24,973</b>	<b>\$ 1,280,292</b>	<b>\$ 236,794</b>	<b>\$ 6,487,521</b>	<b>\$ 428,675</b>	<b>\$ 126,775</b>	<b>\$ 7,042,971</b>	<b>\$ 7,011,755</b>

See notes to financial statements.

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**STATEMENTS OF CASH FLOWS**  
**Year ended June 30, 2016 and 2015**

	Year Ended June 30, 2016	Year Ended June 30, 2015
<b>Cash Flows from Operating Activities:</b>		
Change in Net Assets	\$ (449,850)	\$ (339,177)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	219,704	238,323
Unrealized (Gain) on Cash Flow Derivative Financial Instrument	(12,742)	(12,365)
(Increase) Decrease in Accounts and Grants Receivable	(38,683)	10,615
(Increase) in Prepaid Expenses	(5,504)	(4,489)
Increase in Accounts Payable	113,606	27,561
Increase (Decrease) in Accrued Unemployment Compensation Reserve	(21,458)	24,618
Net Cash Used by Operating Activities	(194,927)	(54,914)
<b>Cash Flows from Investing Activities:</b>		
Purchase of Land, Building and Equipment	(36,485)	(42,602)
Net Cash Used by Investing Activities	(36,485)	(42,602)
<b>Cash Flows from Financing Activities:</b>		
Payments on Long Term Debt	(122,543)	(117,140)
Net Borrowing/(Payments) on Line of Credit	141,000	-
Net Cash Provided (Used) by Financing Activities	18,457	(117,140)
Net Decrease in Cash and Cash Equivalents	(212,955)	(214,656)
Cash and Cash Equivalents - Beginning of Year	261,869	476,525
Cash and Cash Equivalents - End of Year	\$ 48,914	\$ 261,869
Supplemental Information:		
Interest Paid	\$ 54,345	\$ 59,759

See notes to financial statements.



**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**1. Nature of Activities**

Treatment Trends, Inc. (the "Organization") is a nonprofit corporation organized under the laws of the Commonwealth of Pennsylvania for the purpose of providing compassionate inpatient and outpatient treatment services in partnership with the criminal justice and human service systems in order to lessen suffering caused by addiction to alcohol and other drugs. Treatment Trend's goal is to help individuals gain long-term recovery from their addiction and related self-destructive behavior.

**2. Summary of Significant Accounting Policies**

The significant accounting policies followed by the Organization are set forth below.

*Basis of Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting with the principles of not-for-profit accounting.

Resources are classified for accounting and report purposes into three net asset categories according to externally (donor) imposed restrictions.

A description of the three net asset categories follows:

*Unrestricted Net Assets*

Unrestricted net assets include funds not subject to donor-imposed stipulations. In general, the revenues received and expenses incurred in conducting the Organization's charitable mission are included in this category.

*Temporarily Restricted Assets*

Temporarily restricted net assets include gifts, grants and pledges whose use by the Organization has been limited by donors to later periods of time or after specified dates, or to specified purpose.

*Permanently Restricted Net Assets*

Permanently restricted net assets include gifts, trusts and pledges which are required by donor-imposed restrictions to be invested in perpetuity and only income be made available for operations in accordance with donor restrictions. The Organization currently does not have any permanently restricted net assets.

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**2. Summary of Significant Accounting Policies (Continued)**

Revenues

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets by fulfillment of the donor-stipulated purpose or by passage of the stipulated time period are reported as reclassifications between the applicable classes of net assets.

Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investments

Investments are presented in the financial statements in the aggregate at market value.

Derivative Financial Instrument

The Organization has entered into an interest rate swap agreement, which is considered a derivative financial instrument, to manage its interest rate exposure on certain long-term debt. The interest rate swap agreement is reported at fair value on the Statement of Financial Position and related changes in fair value are reported in the Statement of Activities as an unrealized gain on cash flow derivative financial instrument. The fair value is determined by the bank (Note 6).

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**2. Summary of Significant Accounting Policies (Continued)**

Accounts and Grants Receivable

Accounts and grants receivable represent amounts due from grantors and various governmental agencies, and are stated at unpaid balances, less an allowance for doubtful accounts. Management periodically evaluates the allowance for doubtful accounts.

Intangible Assets and Deferred Charges

Goodwill, the excess of amounts paid over the fair value of net assets of business acquired, is being amortized over a 15-year period on a straight-line method.

Covenant Not to Compete is being amortized over the life of the contract, 5 years on a straight-line method.

Land, Building and Equipment

Land, building and equipment is stated at cost. Depreciation is computed by use of the straight-line and declining balance methods based on estimated useful lives. The Organization has a policy to capitalize all purchases greater than \$1,000 with a useful life of one year or more.

Such assets and lives are generally as follows:

	<u>Years</u>
Building	20 - 25
Furniture & Equipment	5 - 10

Maintenance and repairs that do not improve or extend the original useful lives of the respective assets are expensed as incurred.

Allocation of Expense by Function

As reported in the Statement of Functional Expenses, expenses of the Organization have been allocated to the following functional reporting classifications:

Program Services  
Management and General  
Fund Raising

The Organization's method for allocating expenses among the functional reporting classifications which cannot be specifically identified as program or supporting service are based on estimates made for time spent by key personnel between functions, space occupied by function, consumption of supplies and postage by function, and other objective bases.

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**2. Summary of Significant Accounting Policies (Continued)**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Risk

The Organization maintains cash balances which may exceed federally insured limits; they historically have not experienced any credit related losses.

Income Taxes

The Organization is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Accounting guidance as codified in ASC 740-10, *Income Taxes - Uncertainty in Income Taxes*, establishes the criterion that an individual tax position has to meet for some or all of the benefits of that position to be recognized in the Organization's financial statements. The standard prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The standard also provides guidance on derecognition, classification, interest and penalties and disclosure. The Organization had no material uncertain income tax positions that would result in a liability to the Organization.

The Organization files its Form 990, *Return of Organization Exempt from Tax*, with the United States Internal Revenue Service and with the Bureau of Charitable Organizations in Pennsylvania.

Reclassification

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**TREATMENT TRENDS, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**3. Intangible Assets**

Intangible assets consist of the following:

	2016
Goodwill-Halfway Home of L.V.	\$ 164,000
Covenant Not to Complete	100,000
	264,000
Less: Accumulated Amortization	(226,644)
	\$ 37,356

Amortization charged to expense was \$10,933 for the year.

**4. Land, Building and Equipment**

Land, building and equipment consist of the following:

	2016
Buildings and Improvements	\$ 3,641,064
Furniture	85,653
Equipment	833,083
Vehicles	87,829
	4,647,629
Less: Accumulated Depreciation	(2,606,165)
	\$ 2,041,464

Depreciation charged to expense was \$208,771 for the year.

**5. Long-Term Debt and Line of Credit**

Long-term debt consists of:

	2016
Variable rate (4.85% at June 30, 2016) \$1,000,000 Convertible Construction Loan Agreement secured by real property located at 24 South 5th Street, due December 10, 2016. (See Note 6)	\$ 748,158
\$500,000 Conversion Loan, interest rate fixed at 4.31%, collateralized by real property located at 24 South 5th Street, due December 2020.	339,221
	1,087,379
Less: Current Portion	817,809
	\$ 269,570

**TREATMENT TRENDS, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**5. Long-Term Debt and Line of Credit (Continued)**

Long-term debt maturities are as follows:

Years Ending June 30,

2017	\$ 817,809
2018	72,712
2019	75,909
2020	79,246
2021	41,703
	<u>\$ 1,087,379</u>

Interest paid on long-term debt was \$53,698 in 2016.

Line of credit consists of:

The Organization has a \$450,000 line of credit that is secured by the accounts receivable. The line of credit is due on demand and had an expiration date of August 30, 2016, which was subsequently extended to November 28, 2016. The outstanding balance on the line of credit at June 30, 2016 was \$141,000.

Interest paid on the line of credit was \$647 in 2016.

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**6. Cash Flow Derivative Financial Instrument**

The Organization has entered into an interest rate swap agreement, which is considered a derivative financial instrument, to hedge its variable rate interest rate payments due on its Variable Rate Convertible Construction Loan Agreement ( Note 5). The Organization documents its risk management strategy and hedge effectiveness at the inception of and during the term of the hedge. The objective of this swap agreement is to minimize the risks associated with financing activities by reducing the impact of changes in the interest rate on variable rate debt. The swap agreement is a contract to exchange variable rate for fixed rate payments over the term of the swap agreement without the exchange of the underlying notional amount. The notional amount of the swap agreement is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable, if any, which may be generated as a result of the swap agreement. Management believes that losses related to credit risk are remote. The net cash paid or received under the swap agreement is recognized as an adjustment to interest expense. As a result of this swap agreement, interest expense was increased by \$10,241 in 2016. The Organization does not utilize interest rate swap agreements or other financial instruments for trading or other speculative purposes.

At June 30, 2016 the Organization has the following interest rate swap in effect:

Notional amount at June 30, 2016	\$748,158
Fixed rate	4.85%
Variable rate	The per annum rate equal to the product of the Floating Rate Option (USD-LIBOR-BBA-Bloomberg) plus the spread (2.75%).
Period	July 2011 to December 2016

The fair value of the interest rate swap agreement, which is the amount that the Organization would receive (pay) to terminate the swap agreement, is \$(412) at June 30, 2016, and was based on information supplied by the bank. The unrealized gain on the cash flow derivative financial instrument is included in the Decrease in Net Assets.

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**7. Net Assets**

Temporarily restricted net assets are available for the following purposes or periods.

	2016
Veterans Affairs	\$ 44,742
Total Temporarily Restricted Net Assets	\$ 44,742

During the year ended June 30, 2016, \$106,375 of funds have satisfied the time or purpose restrictions.

**8. Leases**

The Organization leases office space under month to month lease agreements for \$9,509 per month. Total rent expense for the year was \$114,108.

The Organization entered into an agreement to lease office equipment under 5-year lease agreements in May 2016, upon expiration of the previously held lease agreements. The new lease agreements expire in May 2021. Lease expense in 2016 was \$949.

Future minimum lease payments are as follows for the year ended June 30,

2018	3,678
2019	3,678
2020	3,678
2021	3,372

**9. Pension Plan**

The Organization contributes to a simplified employee pension plan. The plan is a noncontributory defined contribution plan which covers all personnel. Employees are 100% vested after three years and the contribution is based on 2% of their annual salary. Pension plan expense for the year ended June 30, 2016 was \$45,076.



**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**10. Lehigh, Northampton, Chester, Delaware and Montgomery County Funds**

A breakdown of the revenue received from each program from Lehigh, Northampton, Chester and Delaware Counties follows:

<u>Lehigh County</u>	<u>Keenan House</u>	<u>Halfway Home</u>	<u>Confront</u>	<u>TCAP</u>
Office of Drug & Alcohol Abuse	\$ -	\$ 1,870	\$ 155,632	\$ -
Children & Youth Services	-	-	39,091	-
TCAP	158,118	26,620	19,712	93,120
Drug & Alcohol - Adolescents	-	-	562	-
<b>Total Lehigh County Funds</b>	<b><u>\$ 158,118</u></b>	<b><u>\$ 28,490</u></b>	<b><u>\$ 214,997</u></b>	<b><u>\$ 93,120</u></b>
 <u>Northampton County</u>				
Office of Drug & Alcohol Abuse	\$ 1,168	\$ 6,600	\$ -	\$ -
TCAP	10,658	-	-	-
Human Services	-	-	11,346	-
<b>Total Northampton County Funds</b>	<b><u>\$ 11,826</u></b>	<b><u>\$ 6,600</u></b>	<b><u>\$ 11,346</u></b>	<b><u>\$ -</u></b>
 <u>Chester County</u>				
Office of Drug & Alcohol Abuse	<b><u>\$ 30,672</u></b>	<b><u>\$ 18,969</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
 <u>Delaware County</u>				
Office of Drug & Alcohol Abuse	<b><u>\$ 438</u></b>	<b><u>\$ (1,035)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**11. Related Party Transactions**

The Organization leases office space from Treatment Trends Foundation, a related party, for \$9,509 per month. Total rental expense paid to the Foundation at June 30, 2016 was \$114,108.

**12. Summarized Totals for Year Ended June 30, 2016**

The financial statements include certain prior year summarized comparative information in total, but not by function. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2015, from which the information was derived.

**13. Subsequent Events**

Management has evaluated subsequent events through November 21, 2016, the date on which the financial statements were available to be issued.

The \$450,000 line of credit expiration date has been extended from August 30, 2016 to November 28, 2016.

The convertible construction loan agreement expiration date has been temporarily extended by the bank from October 10, 2016 to December 10, 2016.

SUPPLEMENTARY INFORMATION

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**SCHEDULE OF TOTAL UNITS OF SERVICE PROVIDED**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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<u>Keenan House</u>	<u>Number of Units</u>
Lehigh County SCA PCCD (TCAP)	1,083
Chester County SCA	214
Cumberland/Perry SCA	12
Delaware County SCA	3
Lackawanna SCA	122
Lancaster County SCA	107
Northampton County SCA	8
Northampton County SCA PCCD (TCAP)	73
PA Department of Corrections CCF	3,769
PA Department of Corrections CPC	9,521
Perform Care	2,745
Community Care Behavioral Health	6,987
Department of Military and Veterans Affairs	377
Magellan	<u>8,613</u>
 Total Units of Service	 <u><u>33,634</u></u>
 <u>Halfway Home of the Lehigh Valley</u>	
Lehigh County SCA-Regular D&A	17
Lehigh County SCA PCCD (TCAP)	242
Northampton County SCA	60
Berks County SCA	27
Chester County SCA	144
Perform Care	905
Community Care Behavioral Health	4,877
Department of Military and Veterans Affairs	108
Magellan	<u>6,200</u>
 Total Units of Service	 <u><u>12,580</u></u>

See independent auditors' report on supplementary information

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Treatment Trends, Inc.  
Allentown, PA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Treatment Trends, Inc. (A Not-for-Profit Corporation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Treatment Trends, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Treatment Trends, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described below that we consider to be a significant deficiency.

### Segregation of Duties

Due to the size of the Organization, a lack of segregation of duties exists in the fiscal department. The Fiscal Manager is responsible for the general ledger, as well as, bank reconciliations, cash receipts processing, and invoicing. Currently, the Executive Director's wife is responsible for the cash disbursements processing. A lack of segregation of duties can result in errors or fraud which may not be detected in the ordinary course of business. The Organization has controls in place to mitigate the lack of segregation of duties with the resources available.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Treatment Trends, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Campbell, Rappold & Yasaita LLP*  
Certified Public Accountants

November 21, 2016

**TREATMENT TRENDS, INC.  
(A Not-for-Profit Corporation)**

**Financial Statements,  
Independent Auditor's Report  
and Supplementary Information**

**June 30, 2017**

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
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## INDEPENDENT AUDITOR'S REPORT

Boards of Directors  
Treatment Trends, Inc.  
Allentown, PA

We have audited the accompanying financial statements of TREATMENT TRENDS, INC. (A Not-for-Profit Corporation) which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 Treatment Trends, Inc., as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2017, on our consideration of Treatment Trends, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Treatment Trends, Inc.'s internal control over financial reporting and compliance.

## Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

## Report on Summarized Comparative Information

We have previously audited the Treatment Trends, Inc.'s 2016 financial statements, and our report dated November 21, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Congbell, Rappold & Yasaita LLP*

October 20, 2017

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2017**  
**With Comparative Totals for June 30, 2016**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 190,451	\$ 48,914
Accounts and Grants Receivable, Less Allowance of \$20,000 in 2017 and 2016	729,413	836,453
Prepaid Expenses	38,518	32,189
Intangible Assets (Note 3)	26,422	37,356
Land, Building, and Equipment (Net of Accumulated Depreciation) (Note 4)	<u>1,894,497</u>	<u>2,041,464</u>
<b>Total Assets</b>	<u><u>\$ 2,879,301</u></u>	<u><u>\$ 2,996,376</u></u>
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts Payable and Accrued Expenses	\$ 275,374	\$ 305,971
Accrued Unemployment Compensation	45,000	45,764
Line of Credit (Note 5)	40,000	141,000
Long Term Debt (Note 6)	963,630	1,087,379
Due to Foundation	45,911	-
Cash Flow Derivative Financial Instrument	<u>-</u>	<u>412</u>
<b>Total Liabilities</b>	<u>1,369,915</u>	<u>1,580,526</u>
 <b>Unrestricted Net Assets</b>		
Unrestricted and Expended on Property and Equipment	930,867	954,085
Unrestricted and Designated by the Board for:		
Directors' Discretionary Expenses	500	500
Unrestricted and Undesignated	<u>388,865</u>	<u>416,523</u>
<b>Total Unrestricted Net Assets</b>	1,320,232	1,371,108
 <b>Temporarily Restricted Net Assets (Note 7)</b>	 <u>189,154</u>	 <u>44,742</u>
 <b>Total Net Assets</b>	 <u>1,509,386</u>	 <u>1,415,850</u>
 <b>Total Liabilities and Net Assets</b>	 <u><u>\$ 2,879,301</u></u>	 <u><u>\$ 2,996,376</u></u>

See independent auditor's report and notes to financial statements.

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For Year Ended June 30, 2017**  
**With Comparative Totals for Year Ended June 30, 2016**

	<u>Year Ended June 30, 2017</u>	<u>Year Ended June 30, 2016</u>
<b><u>Changes in Unrestricted Net Assets:</u></b>		
<b>Revenues, Gains, and Other Support:</b>		
Contributions	\$ 328,332	\$ 39,708
Fees for Services	6,489,572	6,508,190
Investment Income	-	1
Rental Income	30,556	32,287
Unrealized Gain on Cash Flow		
Derivative Financial Instrument	-	12,742
Net Assets Released from Restrictions	<u>186,089</u>	<u>106,375</u>
<b>Total Revenue, Gains, and Other Support</b>	<u>7,034,549</u>	<u>6,699,303</u>
<b>Expenses:</b>		
Program Services-		
Resident Counseling	4,084,854	4,122,633
Drug Abuse Prevention and Treatment	698,599	696,547
TCAP	130,739	126,282
Richard S. Csandl Recovery House	25,848	24,973
Halfway Home of the Lehigh Valley	1,256,734	1,280,292
5th Street Property	170,375	236,794
8th Street Property	16,737	-
Center of Excellence	<u>137,239</u>	<u>-</u>
Total Program Services	<u>6,521,125</u>	<u>6,487,521</u>
Supporting Services-		
Management and General	435,950	428,675
Fundraising	<u>128,350</u>	<u>126,775</u>
Total Supporting Services	<u>564,300</u>	<u>555,450</u>
<b>Total Expenses</b>	<u>7,085,425</u>	<u>7,042,971</u>
Decrease in Unrestricted Net Assets	<u>(50,876)</u>	<u>(343,668)</u>
<b><u>Changes in Temporarily Restricted Net Assets:</u></b>		
Grant Income	330,000	-
Investment Income	501	193
Net Assets Released from Restrictions	<u>(186,089)</u>	<u>(106,375)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>144,412</u>	<u>(106,182)</u>
<b>Increase (Decrease) in Net Assets</b>	93,536	(449,850)
Net Assets at Beginning of Year	<u>1,415,850</u>	<u>1,865,700</u>
Net Assets at End of Year	<u>\$ 1,509,386</u>	<u>\$ 1,415,850</u>

See independent auditor's report and notes to financial statements.

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended June 30, 2017**  
**With Comparative Totals for Year Ended June 30, 2016**

	Year ended June 30, 2017									Year Ended June 30, 2017		Total Year Ended 6/30/2017	Total Year Ended 6/30/2016
	Program Services									Supporting Services			
	Keenan Counseling	Confront	TCAP	Richard S. Csandl Recovery House	Halfway Home of LV	5th Street	8th Street	Center of Excellence	Total	Management and General	Fund Raising		
Salaries	\$ 1,910,362	\$ 433,156	\$ 60,918	\$ 6,202	\$ 575,104	\$ -	\$ -	\$ 72,444	\$ 3,058,186	\$ 225,710	\$ 95,462	\$ 3,379,358	\$ 3,415,948
Employee Benefits	897,497	177,657	44,279	-	216,397	-	-	23,178	1,359,008	115,909	25,251	1,500,168	1,310,907
Payroll Taxes	154,361	36,178	4,828	1,941	40,218	-	-	11,749	249,275	17,570	7,637	274,482	315,117
<b>Total</b>	<b>\$ 2,962,220</b>	<b>\$ 646,991</b>	<b>\$ 110,025</b>	<b>\$ 8,143</b>	<b>\$ 831,719</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 107,371</b>	<b>\$ 4,666,469</b>	<b>\$ 359,189</b>	<b>\$ 128,350</b>	<b>\$ 5,154,008</b>	<b>\$ 5,041,972</b>
Consultant and Contract Service Fee	95,451	4,513	117	-	50,523	-	924	8,608	160,136	16,570	-	176,706	180,790
Food	428,328	916	-	-	154,076	-	-	74	583,394	-	-	583,394	624,880
Housekeeping	80,267	1,610	-	1,215	22,758	-	-	574	106,424	-	-	106,424	113,867
Laundry Service	5,510	-	-	-	932	-	-	-	6,442	-	-	6,442	5,303
Medical Supplies	76,450	-	13,081	-	15,336	-	-	1,540	106,407	-	-	106,407	80,704
Other Client-Oriented Services	34,965	-	-	-	9,708	-	-	290	44,963	-	-	44,963	35,515
Occupancy	201,983	16,491	3,910	13,164	112,737	-	12,091	4,318	364,694	41,311	-	406,005	445,422
Equipment Maintenance and Rental	30,634	8,300	161	-	6,740	-	-	5,444	51,279	5,157	-	56,436	31,987
Training, Tuition and Conferences	27,708	3,159	1,732	-	6,944	-	-	2,949	42,492	-	-	42,492	54,182
Office Supplies	21,579	4,094	1,037	-	11,143	-	-	4,637	42,490	3,837	-	46,327	50,056
Postage and Printing	2,990	91	-	-	4,838	-	-	631	8,550	669	-	9,219	4,282
Dues and Subscriptions	14,411	415	-	-	845	-	-	56	15,727	2,041	-	17,768	23,819
Insurance	22,790	3,481	657	438	8,660	103	1,138	-	37,267	3,825	-	41,092	42,550
Interest Expense	13,401	-	-	-	-	30,821	-	-	44,222	-	-	44,222	54,345
Miscellaneous	16,732	5,593	19	1,416	4,027	521	-	747	29,055	3,351	-	32,406	33,593
<b>Total Before Depreciation</b>	<b>\$ 4,035,419</b>	<b>\$ 695,654</b>	<b>\$ 130,739</b>	<b>\$ 24,376</b>	<b>\$ 1,240,986</b>	<b>\$ 31,445</b>	<b>\$ 14,153</b>	<b>\$ 137,239</b>	<b>\$ 6,310,011</b>	<b>\$ 435,950</b>	<b>\$ 128,350</b>	<b>\$ 6,874,311</b>	<b>\$ 6,823,267</b>
Amortization	-	-	-	-	10,934	-	-	-	10,934	-	-	10,934	10,933
Depreciation of Building and Equipment	49,435	2,945	-	1,472	4,814	138,930	2,584	-	200,180	-	-	200,180	208,771
<b>TOTAL EXPENSE</b>	<b>\$ 4,084,854</b>	<b>\$ 698,599</b>	<b>\$ 130,739</b>	<b>\$ 25,848</b>	<b>\$ 1,256,734</b>	<b>\$ 170,375</b>	<b>\$ 16,737</b>	<b>\$ 137,239</b>	<b>\$ 6,521,125</b>	<b>\$ 435,950</b>	<b>\$ 128,350</b>	<b>\$ 7,085,425</b>	<b>\$ 7,042,971</b>

See independent auditor's report and notes to financial statements.

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**STATEMENTS OF CASH FLOWS**  
**Years ended June 30, 2017 and 2016**

	Year Ended June 30, 2017	Year Ended June 30, 2016
<b>Cash Flows from Operating Activities:</b>		
Change in Net Assets	\$ 93,536	\$ (449,850)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	211,114	219,704
Unrealized (Gain) on Cash Flow Derivative Financial Instrument	(412)	(12,742)
Decrease (Increase) in Accounts and Grants Receivable	107,040	(38,683)
(Increase) in Prepaid Expenses	(6,329)	(5,504)
(Decrease) Increase in Accounts Payable and Accrued Expenses	(30,597)	113,606
(Decrease) in Accrued Unemployment Compensation Reserve	(764)	(21,458)
Net Cash Provided (Used) by Operating Activities	<u>373,588</u>	<u>(194,927)</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of Land, Building and Equipment	<u>(53,213)</u>	<u>(36,485)</u>
Net Cash Used by Investing Activities	<u>(53,213)</u>	<u>(36,485)</u>
<b>Cash Flows from Financing Activities:</b>		
Payments on Long Term Debt	(123,749)	(122,543)
Borrowings on Long Term Debt	45,911	-
Net Borrowing/(Payments) on Line of Credit	<u>(101,000)</u>	<u>141,000</u>
Net Cash (Used) Provided by Financing Activities	<u>(178,838)</u>	<u>18,457</u>
Net Increase (Decrease) in Cash and Cash Equivalents	141,537	(212,955)
Cash and Cash Equivalents - Beginning of Year	<u>48,914</u>	<u>261,869</u>
Cash and Cash Equivalents - End of Year	<u>\$ 190,451</u>	<u>\$ 48,914</u>
Supplemental Information:		
Interest Paid	<u>\$ 44,222</u>	<u>\$ 54,345</u>

See independent auditor's report and notes to financial statements.

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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**1. Nature of Activities**

Treatment Trends, Inc. (the "Organization") is a nonprofit corporation organized under the laws of the Commonwealth of Pennsylvania for the purpose of providing a program for the residential and outpatient treatment of persons committed to a lifestyle of drug-alcohol abuse or criminal behavior.

**2. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting with the principles of not-for-profit accounting.

Resources are classified for accounting and report purposes into three net asset categories according to externally (donor) imposed restrictions.

A description of the three net asset categories follows:

*Unrestricted Net Assets*

Unrestricted net assets include funds not subject to donor-imposed stipulations. In general, the revenues received and expenses incurred in conducting the Organization's charitable mission are included in this category.

*Temporarily Restricted Assets*

Temporarily restricted net assets include gifts, grants and pledges whose use by the Organization has been limited by donors to later periods of time or after specified dates, or to specified purpose.

*Permanently Restricted Net Assets*

Permanently restricted net assets include gifts, trusts and pledges which are required by donor-imposed restrictions to be invested in perpetuity and only income be made available for operations in accordance with donor restrictions. The Organization currently does not have any permanently restricted net assets.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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**2. Summary of Significant Accounting Policies (Continued)**

Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Derivative Financial Instrument

The Organization has entered into an interest rate swap agreement, which is considered a derivative financial instrument, to manage its interest rate exposure on certain long-term debt. The interest rate swap agreement is reported at fair value on the Statement of Financial Position and related changes in fair value are reported in the Statement of Activities as an unrealized gain (loss) on cash flow derivative financial instrument. The fair value is determined by the bank. The interest rate swap agreement was terminated as a result of the debt renegotiation in December 2016.

Accounts and Grants Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. Collection of all receivables are expected.

Intangible Assets and Deferred Charges

Goodwill, the excess of amounts paid over the fair value of net assets of business acquired, is being amortized over a 15-year period on a straight-line method.

Covenant Not to Compete is being amortized over the life of the contract, 5 years on a straight-line method.

Land, Building and Equipment

Land, building and equipment is stated at cost. Depreciation is computed by use of the straight-line and declining balance methods based on estimated useful lives. The Organization has a policy to capitalize all purchases greater than \$1,000 with a useful life of one year or more.

Routine repair and maintenance expenses are expensed as incurred.

	<u>Years</u>
Building	20 - 25
Furniture & Equipment	5 - 10

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



**TREATMENT TRENDS, INC.**  
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**2. Summary of Significant Accounting Policies (Continued)**

Concentration of Risk

The Organization maintains cash balances which may exceed federally insured limits; they historically have not experienced any credit related losses.

Income Taxes

The Organization is exempt from federal income tax under the provisions of Section 501 (c)(3) of the Internal Revenue Code.

The Organization adopted the accounting guidance as codified in ASC 740-10, *Income Taxes - Uncertainty in Income Taxes*, which establishes the criterion that an individual tax position has to meet for some or all of the benefits of that position to be recognized in the Organization's financial statements. The standard prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The standard also provides guidance on derecognition, classification, interest and penalties and disclosure. The Organization had no material uncertain income tax positions that would result in a liability to the Organization. The Organization files its Form 990, *Return of Organization Exempt from Tax*, with the United States Internal Revenue Service and with the Bureau of Charitable Organizations in Pennsylvania.

**3. Intangible Assets**

Intangible assets consist of the following:

	2017
Goodwill-Halfway Home of L.V.	\$ 164,000
Covenant Not to Complete	100,000
	264,000
Less: Accumulated Amortization	(237,578)
	\$ 26,422

Amortization charged to expense was \$10,934 for the year.

**4. Land, Building and Equipment**

Land, building and equipment consist of the following:

	2017
Buildings and Improvements	\$ 3,641,064
Furniture	85,653
Equipment	833,083
Vehicles	141,042
	4,700,842
Less: Accumulated Depreciation	(2,806,345)
	\$ 1,894,497

Depreciation charged to expense was \$200,180 for the year.

**TREATMENT TRENDS, INC.**  
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**5. Line of Credit**

The Organization has a \$350,000 variable rate line of credit (currently 3.72%) that is secured by the accounts receivable. As of June 30, 2017, the outstanding balance was \$40,000. Interest paid on the line amounted to \$4,566 in 2017. The line of credit is due on demand, and expires September 15, 2017. (See Note 13)

**6. Long-Term Debt**

Long-term debt consists of:

	2017
Variable rate (3.97% at June 30, 2017) \$705,077 Convertible Construction Loan Agreement secured by real property located at 24 South 5th Street, due September 10, 2017. (See Note 13)	\$ 693,880
\$500,000 Conversion Loan, interest rate fixed at 4.31%, collateralized by real property located at 24 South 5th Street, due December 2020.	269,750
	\$ 963,630

Long-term debt maturities are as follows:

Years Ending June 30,

2018	\$ 766,551
2019	75,865
2020	79,200
2021	42,014
	\$ 963,630

Interest paid amounted to \$39,656 in 2017.

**TREATMENT TRENDS, INC.**  
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**7. Net Assets**

Temporarily restricted net assets are available for the following purpose:

	2017
Center of Excellence	\$ 189,154
Total Temporarily Restricted Net Assets	\$ 189,154

Temporarily restricted net assets of \$186,089 were released from restriction during the year ended June 30, 2017 to support the services provided by the Center of Excellence (\$141,347) and the Veterans program (\$44,742).

**8. Leases**

The Company leases office space under month to month lease agreements. Rent expense for the year was \$114,108.

The Company leases office equipment under a 5-year lease agreement expiring in July 2016. Lease expense was \$3,571.

Future minimum lease payments are as follows for the year ended June 30,

2018	\$ 3,678
2019	3,678
2020	3,678
2021	3,372
2022	-

**9. Pension Plan**

The Organization contributes to a simplified employee pension plan. The plan is a noncontributory defined contribution plan which covers all personnel. Employees are 100% vested after three years and the contribution is based on 2% of their annual salary. Pension plan expense for the year ended June 30, 2017 was \$43,469.

**TREATMENT TRENDS, INC.**  
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**10. Lehigh, Northampton, Chester, and Delaware County Funds**

A breakdown of the revenue received from each program from Lehigh, Northampton, Chester, and Delaware Counties follows:

<u>Lehigh County</u>	<u>Keenan House</u>	<u>Halfway Home</u>	<u>Confront</u>	<u>TCAP</u>
Office of Drug and Alcohol Abuse	\$ 2,768	\$ 492	\$ 183,191	\$ -
Children and Youth Services	-	-	15,198	-
TCAP	231,795	7,280	6,249	95,889
Drug and Alcohol - Adolescents	-	-	180	-
Total Lehigh County Funds	<u>\$ 234,563</u>	<u>\$ 7,772</u>	<u>\$ 204,818</u>	<u>\$ 95,889</u>
 <u>Northampton County</u>				
Office of Drug and Alcohol Abuse	\$ 13,770	\$ 6,160	\$ -	\$ -
TCAP	8,763	-	-	-
Total Northampton County Funds	<u>\$ 22,533</u>	<u>\$ 6,160</u>	<u>\$ -</u>	<u>\$ -</u>
 <u>Chester County</u>				
Office of Drug and Alcohol Abuse	<u>\$ 27,081</u>	<u>\$ 13,888</u>	<u>\$ -</u>	<u>\$ -</u>
 <u>Delaware County</u>				
Office of Drug and Alcohol Abuse	<u>\$ 1,359</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**TREATMENT TRENDS, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
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**11. Related Party Transactions**

The Organization leases office space from Treatment Trends Foundation for \$9,509 per month. Total rental expense paid to the Foundation at June 30, 2017 was \$114,108.

In January 2017, Treatment Trends, Inc.'s board approved a resolution to purchase three vehicles with a loan from Treatment Trends Foundation. The interest-free loan is expected to be paid back in three years. The amount due to the Foundation at June 30, 2017 is \$45,911 and is included in the statement of financial position.

In March 2017, the Treatment Trends Foundation board approved a donation of \$275,000 to Treatment Trends, Inc. to fund lost cash flow from the fire at Keenan House and several years of operating losses. The donation is included with the unrestricted contributions in the statement of activities.

**12. Summarized Totals for Year Ended June 30, 2016**

The financial statements include certain prior year summarized comparative information in total, but not by function or net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2016, from which the information was derived.

**13. Subsequent Events**

Management has evaluated subsequent events through October 20, 2017, the date on which the financial statements were available to be issued.

The Halfway Home property located on 8<sup>th</sup> Street in Allentown was sold on July 13, 2017 for \$230,000. The Halfway Home relocated its treatment facility to the 5<sup>th</sup> Street, Allentown property during the 2017 fiscal year.

Treatment Trends, Inc. was awarded its second and final Center of Excellence payment in September 2017 of \$170,000, but will not receive the payment until it has spent \$250,000 of the initial grant award. The Organization anticipates fully expending the \$250,000 by the end of October 2017.

The line of credit and loan expiring September 2017 have been extended until December 31, 2017.

SUPPLEMENTARY INFORMATION

**TREATMENT TRENDS, INC.**  
**(A Not-for-Profit Corporation)**  
**SCHEDULE OF TOTAL UNITS OF SERVICE PROVIDED**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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<u>Keenan House</u>	<u>Number of Units</u>
Lehigh County SCA-Regular D&A	16
Lehigh County SCA PCCD (TCAP)	1,515
Chester County SCA	177
Delaware County SCA	9
Lackawanna SCA	27
Lancaster County SCA	3
Northampton County SCA	90
Northampton County SCA PCCD (TCAP)	63
Schuylkill County SCA	93
PA Department of Corrections CCF	4,040
PA Department of Corrections CPC	7,558
Perform Care	2,526
Community Care Behavioral Health	5,700
Department of Military and Veterans Affairs	107
Magellan	<u>8,912</u>
 Total Units of Service	 <u><u>30,836</u></u>
 <u>Halfway Home of the Lehigh Valley</u>	
Lehigh County SCA-Regular D&A	4
Lehigh County SCA PCCD (TCAP)	65
Northampton County SCA	55
Berks County SCA	75
Bucks County	23
Chester County SCA	124
Lancaster County SCA	27
Schuylkill County SCA	4
Perform Care	1,038
Community Care Behavioral Health	4,163
Department of Military and Veterans Affairs	125
Magellan	<u>3,142</u>
 Total Units of Service	 <u><u>8,845</u></u>

See independent auditor's report on supplementary information

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of  
Treatment Trends, Inc.  
Allentown, PA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Treatment Trends, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 20, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Treatment Trends, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Treatment Trends, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Treatment Trends, Inc.'s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control that we consider to be a significant deficiency. The significant deficiency is as follows:



### Segregation of Duties

Due to the size of the Organization, a lack of segregation of duties exists in the fiscal department. The Fiscal Manager is responsible for the general ledger, as well as bank reconciliations, cash receipts processing, and invoicing. Currently, the Executive Director's wife is responsible for the cash disbursements processing. A lack of segregation of duties can result in errors or fraud which may not be detected in the ordinary course of business. The Organization has controls in place to mitigate the lack of segregation of duties with the resources available.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Treatment Trends, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Congbell, Rappold & Yasaita LLP*

October 20, 2017