THE NATIONAL CENTER ON ADDICTION AND SUBSTANCE ABUSE

Financial Statements

December 31, 2016
(with comparative financial information as of
December 31, 2015)

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
The National Center on Addiction and Substance Abuse:

We have audited the accompanying financial statements of The National Center on Addiction and Substance Abuse, which comprise the balance sheet as of December 31, 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The National Center on Addiction and Substance Abuse as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited The National Center on Addiction and Substance Abuse's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 5, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

May 11, 2017

THE NATIONAL CENTER ON ADDICTION AND SUBSTANCE ABUSE

Balance Sheet

December 31, 2016
(with comparative financial information as of
December 31, 2015)

Assets		2016	2015
Cash and cash equivalents	$	384,249	620,123
Grants and contributions receivable, net (note 4)		3,886,216	3,525,661
Prepaid expenses and other assets		314,003	351,249
Investments (note 3)		49,704,297	49,323,297
Property and equipment, net (note 5 and 6)		8,543,195	8,945,936
Total assets	$	62,831,960	62,766,266
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	2,251,570	1,856,201
Deferred revenue		62,798	691,150
Bonds payable (note 6)		14,000,000	14,000,000
Total liabilities		16,314,368	16,547,351
Net assets:			
Unrestricted:			
Available for operations		4,641,786	4,603,107
Amounts designated for (note 2):			
The Joseph A. Califano, Jr. Institute for Applied Policy		9,764,170	9,098,631
Program Concentration Fund		27,099,852	27,939,622
Total unrestricted		41,505,808	41,641,360
Temporarily restricted (note 8)		5,011,784	4,577,555
Total net assets		46,517,592	46,218,915
Total liabilities and net assets	$	62,831,960	62,766,266

See accompanying notes to financial statements.

THE NATIONAL CENTER ON ADDICTION AND SUBSTANCE ABUSE

Statement of Activities

Year ended December 31, 2016
(with summarized financial information for the
year ended December 31, 2015)

	2016			2015
	Unrestricted	**Temporarily restricted**	**Total**	**Total**
Revenues:				
Grants	$ 2,889,397	2,113,875	5,003,272	4,110,488
Contributions	87,287	100,062	187,349	295,779
Net investment return (note 3)	3,996,887	—	3,996,887	(1,869,061)
Donated services	37,098	—	37,098	33,180
Special events (note 4)	1,126,600	—	1,126,600	1,757,216
Less direct benefits to donors (note 4)	(116,297)	—	(116,297)	(160,680)
Net special events revenues	1,010,303	—	1,010,303	1,596,536
Rental income (note 5)	392,869	—	392,869	392,869
Miscellaneous revenue	4,209	—	4,209	6,123
Net assets released from restrictions:				
Satisfaction of purpose restrictions	1,579,708	(1,579,708)	—	—
Expiration of time restrictions	200,000	(200,000)	—	—
Total revenues	10,197,758	434,229	10,631,987	4,565,914
Expenses and losses:				
Program operations:				
Public policy	991,433	—	991,433	896,907
Health and treatment research	4,281,885	—	4,281,885	4,095,469
Research and program development	1,854,137	—	1,854,137	1,191,457
Communications and outreach	675,697	—	675,697	1,019,249
Special projects	121,533	—	121,533	178,311
Total program operations	7,924,685	—	7,924,685	7,381,393
Supporting services:				
Administration	1,811,387	—	1,811,387	1,691,449
Fund-raising (note 4)	597,238	—	597,238	617,049
Total supporting services	2,408,625	—	2,408,625	2,308,498
Total expenses	10,333,310	—	10,333,310	9,689,891
(Decrease) increase in net assets	(135,552)	434,229	298,677	(5,123,977)
Net assets at beginning of year	41,641,360	4,577,555	46,218,915	51,342,892
Net assets at end of year	$ 41,505,808	5,011,784	46,517,592	46,218,915

See accompanying notes to financial statements.

THE NATIONAL CENTER ON ADDICTION AND SUBSTANCE ABUSE

Statement of Functional Expenses

Year ended December 31, 2016
(with summarized financial information for the
year ended December 31, 2015)

		Public policy	Health and treatment research	Research and program development	Communications and outreach
Salaries and wages	$	599,676	1,997,006	648,863	321,156
Fringe benefits		185,971	618,116	114,176	99,253
Total salaries and wages and fringe benefits		785,647	2,615,122	763,039	420,409
Professional services		49,954	363,851	913,608	96,353
Communications/marketing/promotional		—	1,623	3,606	29,386
Pass-through grants and contracts		—	552,898	—	—
Office expenses and supplies		302	52,065	930	153
Postage and delivery		—	822	595	46
Telephone and facsimile		144	8,624	3,634	355
Occupancy and related costs		65,087	263,038	63,214	34,829
Equipment maintenance		100	14,942	—	10,373
Printing and duplicating		—	600	—	4
Travel, meetings, and conferences		2,000	112,082	11,561	7,270
Dues, subscriptions, and publications		11	2,619	8,300	29,318
Insurance		11,922	39,683	11,579	6,379
Interest/financing		31,738	105,642	30,824	16,983
Recruitment		—	—	—	—
Depreciation and amortization		44,528	148,216	43,247	23,827
Miscellaneous		—	58	—	12
Total expenses	$	991,433	4,281,885	1,854,137	675,697
Direct benefits to donors					

See accompanying notes to financial statements.

Special projects	Total program operations	Administration	Fund-raising	Total supporting services	Total expenses 2016	Total expenses 2015
63,119	3,629,820	671,350	160,017	831,367	4,461,187	3,599,527
19,066	1,036,582	184,777	49,801	234,578	1,271,160	1,150,009
82,185	4,666,402	856,127	209,818	1,065,945	5,732,347	4,749,536
5,543	1,429,309	301,633	274,187	575,820	2,005,129	2,019,888
15,926	50,541	—	26,914	26,914	77,455	76,501
—	552,898	—	—	—	552,898	1,022,431
155	53,605	51,569	2,341	53,910	107,515	149,730
565	2,028	5,514	9,741	15,255	17,283	9,006
62	12,819	45,272	20	45,292	58,111	53,231
6,808	432,976	125,434	17,382	142,816	575,792	571,361
475	25,890	67,632	28,846	96,478	122,368	110,416
—	604	703	8	711	1,315	3,697
—	132,913	17,360	341	17,701	150,614	97,007
—	40,248	12,629	291	12,920	53,168	69,726
1,247	70,810	27,088	3,184	30,272	101,082	97,558
3,320	188,507	106,593	8,476	115,069	303,576	152,127
297	297	745	—	745	1,042	22,091
4,658	264,476	133,609	11,892	145,501	409,977	412,203
292	362	59,479	3,797	63,276	63,638	73,382
121,533	7,924,685	1,811,387	597,238	2,408,625	10,333,310	9,689,891
					116,297	160,680
					$ 10,449,607	9,850,571

THE NATIONAL CENTER ON ADDICTION AND SUBSTANCE ABUSE

Statement of Cash Flows

Year ended December 31, 2016
(with comparative financial information for the
year ended December 31, 2015)

		2016	2015
Cash flows from operating activities:			
Increase (decrease) in net assets	$	298,677	(5,123,977)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:			
Depreciation and amortization		409,977	412,203
Net unrealized (appreciation) depreciation in fair value of investments		(2,834,279)	2,626,542
Net realized (gains) losses on investments		(186,997)	195,283
Changes in operating assets and liabilities:			
Grants and contributions receivable		(360,555)	(884,097)
Prepaid expenses and other assets		37,246	(100,219)
Accounts payable and accrued expenses		395,369	720,706
Deferred revenue		(628,352)	(4,992)
Net cash used in operating activities		(2,868,914)	(2,158,551)
Cash flows from investing activities:			
Proceeds from sales of investments		3,208,030	5,282,510
Purchases of investments		(567,754)	(3,400,284)
Acquisitions of property and equipment		(7,236)	(127,093)
Net cash provided by investing activities		2,633,040	1,755,133
Net decrease in cash and cash equivalents		(235,874)	(403,418)
Cash and cash equivalents at beginning of year		620,123	1,023,541
Cash and cash equivalents at end of year	$	384,249	620,123
Supplemental disclosures of cash flow information:			
Interest paid	$	51,150	4,787
Donated services		37,098	33,180

See accompanying notes to financial statements.

(1) Organization and Tax-Exempt Status

Incorporated in April 1991, The National Center on Addiction and Substance Abuse (CASA) is a not-for-profit organization that informs Americans of the economic and social costs of addiction and risky substance use and its impact on their lives; assesses what works in prevention, treatment and disease management; and encourages every individual and institution to take responsibility to reduce these health problems. CASA strives to provide health care providers, policymakers and individuals with the tools they need to succeed and to remove the stigma of addiction, replacing shame and despair with hope.

CASA has been classified as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3). It has been classified as an organization that is not a private foundation under Section 509(a) and has been designated as a "publicly supported" organization under Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Code.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) Basis of Presentation

Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of CASA and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets also include amounts designated for The Joseph A. Califano, Jr. Institute for Applied Policy and the Program Concentration Fund (the PCF). A description of each follows:

In 2010, the CASA Board of Directors authorized a fund-raising campaign and agreed that the funds raised would be used to establish The Joseph A. Califano, Jr. Institute for Applied Policy. This fund supports research to enhance awareness, among the general public and policymakers, of the facts and costs of substance abuse and addiction, and catalyze the design and implementation of policies and programs for prevention and treatment of substance abuse and addiction as a medical condition. Its efforts aim to embed a fuller understanding into policy systems and practical programs at the national, state, and local levels.

The net assets of the PCF are designated by CASA to be used for the research and understanding of substance abuse, often before projects are ready for specific program funding. The PCF underwrites the research and program development capacity to accomplish this. The asset allocation target objectives for the investment portfolio are achieved by using a combination of diversified low-cost mutual funds and multi-strategy funds.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met by either actions of CASA and/or the passage of time.

(Continued)

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 (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

(c) Fair Value Measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted or published prices (unadjusted) in active markets for identical assets or liabilities that CASA has the ability to access at the measurement date.
- Level 2 inputs include quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the assets or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

(d) Cash and Cash Equivalents

Cash and cash equivalents include all short-term liquid investments with original maturities of three months or less, except for those short-term investments held by CASA's investment managers as part of a long-term investment strategy.

(e) Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying balance sheet, as determined by quoted market prices.

Investments in funds that do not have readily determinable fair values (alternative investments) are measured at estimated fair value using net asset value per share or its equivalent as a practical expedient as reported by the fund managers. The estimated fair values may differ significantly from values that would have been used had a ready market for these securities existed. These values are reviewed and evaluated by management.

Realized and unrealized gains and losses are recognized as changes in net assets in the period in which they occur, and interest and dividends are recognized as revenue in the period earned.

(f) Property and Equipment

Property and equipment are recorded at cost. Furniture and equipment are depreciated on a straight-line basis over their estimated useful lives of 3 to 10 years. The condominium interest and improvements are depreciated on a straight-line basis over their estimated useful lives of 40 years.

(g) Donated Services

The value of donated services (principally legal services) is based on information obtained from the providers and is reported as both revenues and expenses in the accompanying statement of activities.

(h) Grants and Contributions

Grants and contributions, including unconditional promises to give, are reported as revenues in the period received except those grants that are deemed to be exchange transactions, which are reported as revenue as expenses are incurred. Grants and contributions receivable are reported at their discounted net present value (using a discount rate of 1.98%). An allowance for amounts estimated to be uncollectible is provided based upon management judgment, including such factors as prior collection history and type of grants and contributions.

Amounts received in excess of amounts recognized are included in deferred revenue.

(i) Expenses

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

(j) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect 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. Significant estimates made in the preparation of the financial statements include fair value of alternative investments, net realizable value of grants and contributions receivable, depreciation of property plant and equipment, and allocation of expenses. Actual results could differ from those estimates.

(k) Prior Year Summarized Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class or function in the accompanying statement of activities and the statement of functional expenses, respectively. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with CASA's financial statements as of and for the year ended December 31, 2015, from which the summarized information was derived.

(Continued)

(l) Subsequent Events

In connection with the preparation of the financial statements, CASA evaluated events after the balance sheet date of December 31, 2016 through May 11, 2017, which was the date the financial statements were issued, and determined that there were no additional matters that are required to be disclosed.

(3) Investments

CASA invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

The following tables present the fair value hierarchy for investments, the only financial instruments measured at fair value, as of December 31, 2016 and 2015:

	2016			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 2,014,699	2,014,699	—	—
Fixed-income mutual funds	6,052,533	6,052,533	—	—
Equity mutual funds:				
Domestic	17,785,876	17,785,876	—	—
International	9,619,161	9,619,161	—	—
	35,472,269	35,472,269	—	—
Investments reported at net asset value:				
Absolute return fund	5,601,697			
Event-driven fund	5,882,309			
International value fund	2,748,022			
Total investments reported at net asset value	14,232,028			
Total investments	$ 49,704,297			

	2015			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 1,389,621	1,389,621	—	—
Fixed-income mutual funds	6,243,576	6,243,576	—	—
Equity mutual funds:				
Domestic	17,783,579	17,783,579	—	—
International	10,523,363	10,523,363	—	—
	35,940,139	35,940,139	—	—
Investments reported at net asset value:				
Absolute return fund	5,166,139			
Event-driven fund	5,493,214			
International value fund	2,723,805			
Total investments reported at net asset value	13,383,158			
Total investments	$ 49,323,297			

In addition to mutual funds, CASA holds shares or units in alternative investment funds. These strategies involve funds whose managers have the authority to invest in various asset classes at their discretion. The investment strategies in these alternative investments are as follows:

Absolute return fund – This investment follows an absolute return approach that combines relative value and arbitrage strategies with opportunistic investments. The investment seeks capital preservation through superior risk-adjusted returns with relatively low volatility and relatively low correlation to most major market indices. The fund generally strives to hedge most systematic risks, including equity, currency, and commodity risk and to selectively take exposure to interest rate, curve, credit spread, credit default, volatility, and various idiosyncratic risks.

Event-driven fund – The fund seeks to achieve capital appreciation and engages primarily in event-driven investments to attempt to exploit situations in which announced or anticipated events create inefficiencies in the pricing of securities. The fund invests primarily in the securities of issuers experiencing financial distress, that are attempting to complete an out-of-court restructuring, are involved in a bankruptcy or similar proceeding, and/or are involved in substantial litigation or that are the subject of proposed changes in corporate structure or control, such as tender or exchange offers, mergers, unsolicited merger proposals, spin-offs, split-offs, liquidations, and recapitalizations.

International value fund – The fund seeks to achieve appreciation through investments in a broad range of securities including public equities and debt securities, direct loans, real estate debt, and other instruments.

(Continued)

Redemption for the absolute return fund is allowed quarterly with 90 days' notice with a maximum redemption of 25% per quarter and redemption for the event-driven fund is allowed quarterly with 60 days' notice. Redemption for the international value fund is allowed every two years on the anniversary date with 90 days' notice.

Net investment return for the years ended December 31, 2016 and 2015 consists of the following:

		2016	2015
Interest and dividends	$	975,611	952,764
Net unrealized appreciation (depreciation) in fair value of investments		2,834,279	(2,626,542)
Net realized gains (losses) on investments		186,997	(195,283)
	$	3,996,887	(1,869,061)

(4) Grants and Contributions

Grants and contributions receivable are scheduled to be collected as follows at December 31, 2016 and 2015:

		2016	2015
Less than one year	$	3,756,607	3,154,549
One to five years		150,000	400,000
		3,906,607	3,554,549
Discount to present value of future cash flows		(20,391)	(28,888)
Grants and contributions receivable, net	$	3,886,216	3,525,661

During 2016 and 2015, 92% and 87%, respectively, of grants and contributions revenue were from six funding sources, respectively. At December 31, 2016 and 2015, 74% and 70% of grants and contributions receivable, net, were from three funding sources.

During 2016 and 2015, CASA held its annual Anniversary Celebration and Awards Benefit Dinner. Revenue totaled $1,126,600 and $1,757,216 in 2016 and 2015, respectively. Total costs for these events, totaling $306,987 and $329,494 in 2016 and 2015, respectively, are included in either direct benefits to donors or fund-raising expense in the accompanying statement of activities.

(5) Property and Equipment

Property and equipment at December 31, 2016 and 2015 consist of the following:

		2016	2015
Condominium interest and improvements	$	14,348,578	14,348,578
Furniture and equipment		1,804,744	1,797,508
		16,153,322	16,146,086
Accumulated depreciation and amortization		(7,610,127)	(7,200,150)
Property and equipment, net	$	8,543,195	8,945,936

CASA leases a portion of its condominium under an operating lease that expires in September 2020. Total lease income in 2016 and 2015 was $392,869. Future minimum lease payments are as follows:

Year ending December 31:		
2017	$	392,869
2018		392,869
2019		392,869
2020		294,652
	$	1,473,259

(6) Bonds Payable

In 2000, the New York City Industrial Development Agency (the Agency) issued $14 million in Adjustable Rate Demand Civic Facility Revenue Bonds, Series 2000 (2000 CASA Project) to refinance a note that was used to finance the purchase of condominium units (the Facility). The bonds consist of term bonds with a maturity of March 1, 2020, at an initial interest rate of 3.85%. During 2016, the interest rates ranged from 0.01% to 0.88% per annum. During 2015, the interest rates ranged from 0.01% to 0.12% per annum. The bonds are supported by an irrevocable direct-pay letter of credit from JPMorgan Chase Bank in the amount of $14,230,137, which has been extended through March 2018. Under the terms of the letter of credit reimbursement agreement, CASA is required to comply with certain financial covenants. CASA complied with those covenants as of and for the year ended December 31, 2016.

The trustee of the bonds holds a mortgage note on the Facility secured by the property on which the Facility was built, as well as the condominium and improvements, furniture, and fixtures thereon.

In conjunction with the financing, the parties thereto agreed that the Agency would take title to all assets constructed from the proceeds of the financing. Concurrently, CASA entered into a lease agreement with the Agency to lease those assets. Title to these assets transfers to CASA when the bonds are extinguished. Accordingly, the proceeds of the bonds and the property, which are the subject of the lease agreement, and the outstanding bonds are included in the accompanying balance sheet.

(7) Retirement Plan

CASA has a noncontributory defined-contribution retirement plan covering substantially all employees. Contributions are based on the following formula: 8.0% of the first $118,500 of annual salary and 13.7% of annual salary in excess of $118,500 to a maximum of $265,000. Total pension expense for the years ended December 31, 2016 and 2015 was $302,915 and $247,389, respectively.

(8) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at December 31, 2016 and 2015:

		2016	2015
Communications	$	146,098	155,464
Public policy		2,945,915	2,880,376
Health and treatment research		1,618,216	1,029,106
Special projects		1,969	21,197
Future periods		299,586	491,412
	$	5,011,784	4,577,555