TRANSFORMING YOUTH RECOVERY AND SUBSIDIARY

Consolidated Financial Statements and Supplementary Information

December 31, 2015 and 2014

SchettlerMacy & Associates LLC
CERTIFIED PUBLIC ACCOUNTANTS

TRANSFORMING YOUTH RECOVERY
AND SUBSIDIARY

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SchettlerMacy
& Associates LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Transforming Youth Recovery
and Subsidiary

We have audited the accompanying consolidated financial statements of Transforming Youth Recovery (a nonprofit organization) and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

110 Country Estates Circle Suite 2 | Reno NV 89511 | Ph: 775.624.9108 | Fax 888.506.8025 | **schettlermacy.com**

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Transforming Youth Recovery and Subsidiary as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 13 and 14 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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.

Schettler Macy & Associates, LLC

Reno, Nevada
May 9, 2017

TRANSFORMING YOUTH RECOVERY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 254,445	$ 198,179
Investments	484,338	766,199
Notes receivable	125,000	-
Property and Equipment, net	231,620	27,302
Other	7,428	5,952
Total Assets	$ 1,102,831	$ 997,632
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 20,625	$ -
Accrued expenses	3,314	4,504
Total Liabilities	23,939	4,504
NET ASSETS		
Unrestricted	1,078,892	993,128
Total Liabilities and Net Assets	$ 1,102,831	$ 997,632

See accompanying notes.

TRANSFORMING YOUTH RECOVERY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
PUBLIC SUPPORT, REVENUES AND GAINS		
In-kind contributions	$ 1,072,907	$ 1,808,155
Contributions	1,240,120	149,747
Program service fees	46,488	45,156
Investment income (loss)	792,086	(997)
Total Public Support, Revenues and Gains	3,151,601	2,002,061
EXPENSES		
Program Services	1,714,171	1,054,556
Supporting Services		
Management and general	920,527	342,119
Fundraising	431,139	131,609
	1,351,666	473,728
Total Expenses	3,065,837	1,528,284
CHANGE IN NET ASSETS	85,764	473,777
NET ASSETS, BEGINNING OF YEAR	993,128	519,351
NET ASSETS, END OF YEAR	$ 1,078,892	$ 993,128

See accompanying notes.

TRANSFORMING YOUTH RECOVERY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 85,764	$ 473,777
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	7,182	1,730
Net (gains) losses on investments	(790,598)	1,439
Contribution of securities	(1,037,207)	(1,750,687)
Accrued interest on note receivable	(1,476)	
Changes in:		
Other assets	-	(5,952)
Accounts payable	20,625	-
Accrued expenses	(1,190)	4,504
Net cash used by operating activities	(1,716,900)	(1,275,189)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	-	(29,032)
Issuance of note receivable	(125,000)	-
Purchase of investments	(211,500)	(368,941)
Proceeds from the sale of investments	2,109,666	1,753,787
Net cash provided by investing activities	1,773,166	1,355,814
NET CHANGE IN CASH	56,266	80,625
CASH AND CASH EQUIVALENTS, Beginning of Year	198,179	117,554
CASH AND CASH EQUIVALENTS, End of Year	$ 254,445	$ 198,179
SUPPLEMENTAL INFORMATION		
Non-cash investing and financing activities:		
Contribution of securities	$ 1,037,207	$ 1,750,687

See accompanying notes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Transforming Youth Recovery (the Organization), is a Nevada non-profit that was incorporated in 2012 under the laws of the State of Nevada. The Organization's mission is to promote addiction awareness, recovery, prevention and education at the local, state, and national level. Transforming Youth Recovery provides grants primarily to collegiate programs that treat and prevent substance abuse within the school's community. Josh Montoya House, LLC, a wholly owned subsidiary of the Organization, was formed in 2015 to hold real estate used as a sober living facility.

Basis of Accounting

The Organization prepares its financial statements using the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Consolidation

The consolidated financial statements include the accounts of Transforming Youth Recovery and Josh Montoya House, LLC. Transforming Youth Recovery and its subsidiary comprise a controlled group and are referred to collectively throughout the notes as the "Organization." All significant intercompany transactions and balances have been eliminated.

Financial Statement Presentation

In accordance with the Financial Accounting Standards Board (FASB) ASC 958, *Not-for-Profit Entities*, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization's net assets as of December 31, 2015 and 2014 are all unrestricted.

Cash and Cash Equivalents

For financial reporting purposes, the Organization considers cash equivalents to be all highly liquid debt instruments with a maturity of three months or less. Cash and cash equivalents consist mainly of cash and money market funds, and are valued using level 1 inputs as discussed in Note 2.

Concentration of Credit Risk

The Organization maintains cash and money market balances in financial institutions which may, at times, exceed federally insured limits. The Organization has not experienced any losses in these accounts and does not believe it is exposed to any significant credit risk related to these accounts. Certain accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times during the years ended December 31, 2015 and 2014, the Organization held cash in excess of federally insurance limits.

The Organization also invests in various investment securities. Investment securities are subject to various risks, such as interest rate risk, credit risk and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that the changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Compensated Absences

The obligation for compensated absences was not material to the Organization and is therefore not included in accompanying financial statements.

Investment valuation and income recognition

The Organization's investments are stated at fair value in the statement of financial position with all gains and losses included in the statement of activities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 2 for discussion of fair value measurement.

Investments acquired by gift are recorded at their fair value at the date of gift.

Investments are made according to the investment policies adopted by the Organization's Board of Directors. These guidelines provide for a balanced diversified portfolio. Outside parties are contracted by the Organization for the purpose of providing investment management.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized gains and losses on the sale of marketable securities are calculated using the specific-identification method. Unrealized gains and losses represent the change in the fair value of the individual investments for the year, or since the acquisition date, if acquired during the year.

Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations limiting 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 are reported in the statements of activities as net assets released from restrictions.

Donated securities, services, materials and facilities

Donated Securities – The Organization received donations of stock valued at $1,037,207 and $1,750,687 during the years ended December 31, 2015 and 2014, respectively. This amount is reflected in the statement of activities as in-kind contribution revenue (See also Note 4).

Donated Services – Donated services are recognized as in-kind revenues at their estimated fair value when they create or enhance nonfinancial assets or they require specialized skills which would need to be purchased if they were not donated. Donated services are not reflected in the Statement of Activities as the criteria for recognition have not been satisfied.

Donated Materials – Contributions of donated materials are recorded at their estimated fair values when received. For the years ended December 31, 2015 and 2014, total donated materials were $37,500 and $50,044, respectively and included as in-kind contribution revenue.

Donated Use of Facilities – During 2014, the Organization occupied an office in Reno, Nevada free of charge. Total in-kind rent contributions for the year ended December 31, 2014 was $7,424. (See also Note 4).

Advertising

The Organization expenses advertising costs as incurred. Expenses incurred for the years ended December 31, 2015 and 2014 were $64,022 and $44,318, respectively.

Depreciation

The Organization capitalizes all expenditures for furniture and equipment in excess of $5,000. The fair value of donated fixed assets is similarly capitalized. Depreciable assets are depreciated over their estimated useful lives ranging from three to forty years using the straight-line method.

Functional Expenses

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

Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for federal income taxes has been made. Although the Organization has not been notified of any pending Internal Revenue Service (IRS) examinations, its returns are subject to examination within a three-year statute of limitations.

Josh Montoya House, LLC is a single member limited liability company and is a disregarded entity for U.S. tax purposes. Accordingly, the income, deductions, and credits are reported directly on the income tax return of the Organization. Accordingly, no provision is made for income taxes in the financial statements as a result of this entity.

Management's Review

Management has evaluated subsequent events through May 9, 2017, the date the financial statements were available to be issued.

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Organization utilizes fair value measurements to record certain assets and liabilities. In accordance with FASB ASC Topic 820, *Fair Value Measurements*, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based on quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

ASC Topic 820 establishes a three-tier fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect an organization's own assumptions about the information that market participants would use in pricing an asset or liability.

The categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. There were no significant transfers between levels during the year. The Organization's policy is to recognize transfers in and out of the levels at the end for the fiscal year.

Fair values of assets measured on a recurring basis presented by level within the fair value hierarchy at December 31, 2015 and 2014 are as follows:

	2015			
Investments:	Fair Value	Level 1	Level 2	Level 3
Cash equivalents	$ 484,338	$ 484,338	$ -	$ -
U.S. common stocks	-	-	-	-
	$ 484,338	$ 484,338	$ -	$ -

	2014			
Investments:	Fair Value	Level 1	Level 2	Level 3
Cash equivalents	$ 766,199	$ 766,199	$ -	$ -
U.S. common stocks	-	-	-	-
	$ 766,199	$ 766,199	$ -	$ -

NOTE 3 – PROPERTY AND EQUIPMENT

At December 31, 2015 and 2014, property and equipment consisted of:

	2015	2014
Buildings	$ 179,100	$ -
Furniture	2,040	2,040
Office equipment	26,992	26,992
Land	32,400	-
	240,532	29,032
Less: accumulated depreciation	(8,912)	(1,730)
	$ 231,620	$ 27,302

Depreciation expense for the years ended December 31, 2015 and 2014 was $7,182 and $1,730, respectively.

NOTE 4 – RELATED PARTIES

The Organization receives the majority of its support from the President of the Board of Directors. For the years ended December 31, 2015 and 2014, the total values of securities contributed to the Organization by the Board President were $1,037,207 and $1,750,687, respectively.

Additionally, as of September 2014, the President of the Board of Directors donated the use of a facility in Reno Nevada used as an administrative office. Total value of the donated facilities for the year ended December 31, 2014 was $7,424.

NOTE 5 – LEASE COMMITMENT

On July 17, 2014, the Organization entered into a three-year non-cancellable lease agreement for office space in Solana Beach, California. Lease payments are $5,147 for the first year, $5,328 for the second year, and $5,508 for the third year. On April 1, 2015, the Organization entered into a lease agreement for office space in Reno, Nevada. Lease payments are $1,500, however, either party may terminate the lease with a 30-day notice. Total rent expense for the years ending December 31, 2015 and 2014 were $72,541 and $25,736, respectively.

Future minimum lease payments under the lease are as follows:

2016	$	64,835
2017		38,558
	$	103,393

SUPPLEMENTARY INFORMATION

TRANSFORMING YOUTH RECOVERY AND SUBSIDIARY

SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	Program Services	Support Services		
	Youth Recovery Support	Management and General	Fundraising	Total Expenses
Salaries	$ 432,409	$ 232,835	$ -	$ 665,244
Payroll taxes and employee benefits	43,766	23,566	-	67,332
Total Salaries and Related Expenses	476,175	256,401	-	732,576
Advertising	-	64,022	-	64,022
Bank fees	-	991	-	991
Computer and internet	196,762	-	-	196,762
Conferences and training	25,407	-	431,139	456,546
Donations	632,885	-	-	632,885
Depreciation	6,464	718	-	7,182
Dues and Subscriptions	-	649	-	649
Insurance	-	18,001	-	18,001
Occupancy	57,245	30,824	-	88,069
Office expense	-	76,303	-	76,303
Postage and delivery	-	5,115	-	5,115
Professional fees	34,282	385,172	-	419,454
Program costs	249,666	-	-	249,666
Travel	35,285	82,331	-	117,616
	$ 1,714,171	$ 920,527	$ 431,139	$ 3,065,837

See accompanying notes.

SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2014

	Program Services	Support Services		
	Youth Recovery Support	Management and General	Fundraising	Total Expenses
Salaries	$ 212,626	$ 114,400	$ -	$ 327,026
Payroll taxes and employee benefits	18,670	10,045	-	28,715
Total Salaries and Related Expenses	231,296	124,445	-	355,741
Advertising	-	44,318	-	44,318
Bank fees	-	2,049	-	2,049
Conferences and training	66,729	-	112,692	179,421
Donations	613,786	-	18,600	632,386
Depreciation	1,557	173	-	1,730
Dues and Subscriptions	-	4,538	-	4,538
Insurance	-	8,606	-	8,606
Occupancy	30,343	16,326	-	46,669
Office expense	-	42,230	-	42,230
Postage and delivery	-	1,241	-	1,241
Professional fees	75,916	98,193	-	174,109
Travel	34,929	-	317	35,246
	$ 1,054,556	$ 342,119	$ 131,609	$ 1,528,284

See accompanying notes.