TRANSFORMING YOUTH RECOVERY AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Information

December 31, 2016 and 2015

SchettlerMacy & Associates LLC
CERTIFIED PUBLIC ACCOUNTANTS

TRANSFORMING YOUTH RECOVERY AND SUBSIDIARIES

TABLE OF CONTENTS

DECEMBER 31, 2016 AND 2015

SchettlerMacy
& Associates LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Transforming Youth Recovery
and Subsidiaries

We have audited the accompanying consolidated financial statements of Transforming Youth Recovery (a nonprofit organization) and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, 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.

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 Subsidiaries as of December 31, 2016 and 2015, 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
April 9, 2017

TRANSFORMING YOUTH RECOVERY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Cash and cash equivalents	$ 610,844	$ 254,445
Investments	1,696,273	484,338
Notes receivable	125,000	125,000
Property and Equipment, net	955,247	231,620
Other	12,296	7,428
Total Assets	$ 3,399,660	$ 1,102,831
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 5,187	$ 20,625
Accrued expenses	4,070	3,314
Due to related party	300,000	-
Total Liabilities	309,257	23,939
NET ASSETS		
Unrestricted	3,090,403	1,078,892
Total Liabilities and Net Assets	$ 3,399,660	$ 1,102,831

See accompanying notes.

TRANSFORMING YOUTH RECOVERY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
PUBLIC SUPPORT, REVENUES AND GAINS		
In-kind contributions	$ 3,873,879	$ 1,072,907
Contributions	503,081	1,240,120
Program service fees	-	46,488
Special events	145,260	-
Other	32,486	-
Investment income (loss)	157,073	792,086
Total Public Support, Revenues and Gains	4,711,779	3,151,601
EXPENSES		
Program Services	1,685,336	1,714,171
Supporting Services		
Management and general	870,127	920,527
Fundraising	144,805	431,139
	1,014,932	1,351,666
Total Expenses	2,700,268	3,065,837
CHANGE IN NET ASSETS	2,011,511	85,764
NET ASSETS, BEGINNING OF YEAR	1,078,892	993,128
NET ASSETS, END OF YEAR	$ 3,090,403	$ 1,078,892

See accompanying notes.

TRANSFORMING YOUTH RECOVERY
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 2,011,511	$ 85,764
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	22,573	7,182
Unrealized (gains) losses on investments	(1,760)	-
Realized (gains) losses on investments	(149,273)	(790,598)
Contribution of securities	(3,873,879)	(1,037,207)
Accrued interest on note receivable	(5,313)	(1,476)
Changes in:		
Other assets	445	-
Accounts payable	(15,438)	20,625
Accrued expenses	756	(1,190)
Net cash used by operating activities	(2,010,378)	(1,716,900)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(746,200)	-
Issuance of note receivable	-	(125,000)
Purchase of investments	(976,457)	(211,500)
Proceeds from the sale of investments	3,789,434	2,109,666
Net cash provided by investing activities	2,066,777	1,773,166
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from line of credit	300,000	-
Net cash provided by financing activities	300,000	-
NET CHANGE IN CASH	356,399	56,266
CASH AND CASH EQUIVALENTS, Beginning of Year	254,445	198,179
CASH AND CASH EQUIVALENTS, End of Year	$ 610,844	$ 254,445
SUPPLEMENTAL INFORMATION		
Non-cash investing and financing activities:		
Contribution of securities	$ 3,873,879	$ 1,037,207

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 and Jane Aubrey House, LLC, wholly owned subsidiaries of the Organization, were formed in 2015 and 2016, respectively, to hold real estate used as sober living facilities.

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, Josh Montoya House, LLC, and Jane Aubrey House, LLC. Transforming Youth Recovery and its subsidiaries comprise a controlled group and are referred to collectively through 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, 2016 and 2015 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, 2016 and 2015, 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 $3,873,879 and $1,037,207 during the years ended December 31, 2016 and 2015, 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, 2016 and 2015, total donated materials were $0- and $37,500, respectively and included as in-kind contribution revenue.

Advertising

The Organization expenses advertising costs as incurred. Expenses incurred for the years ended December 31, 2016 and 2015 were $98,287 and $64,022, 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 and Jane Aubrey House, LLC are single member limited liability companies and are disregarded entities 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 these entities.

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, 2016 and 2015 are as follows:

	2016			
Investments:	Fair Value	Level 1	Level 2	Level 3
Cash equivalents	$ 1,460,793	$ 1,460,793	$ -	$ -
U.S. common stocks	235,480	235,480	-	-
	$ 1,696,273	$ 1,696,273	$ -	$ -

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

NOTE 3 – PROPERTY AND EQUIPMENT

At December 31, 2016 and 2015, property and equipment consisted of:

	2016	2015
Buildings	$ 794,700	$ 179,100
Furniture	2,040	2,040
Office equipment	26,992	26,992
Land	163,000	32,400
	986,732	240,532
Less: accumulated depreciation	(31,485)	(8,912)
	$ 955,247	$ 231,620

Depreciation expense for the years ended December 31, 2016 and 2015 was $22,573 and $7,182, 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, 2016 and 2015, the total values of securities contributed to the Organization by the Board President were $3,873,879 and $1,037,207, respectively.

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, 2016 and 2015 were $72,747 and $72,541, respectively.

Future minimum lease payments under the lease are as follows:

2017	$ 38,558

SUPPLEMENTARY INFORMATION

TRANSFORMING YOUTH RECOVERY AND SUBSIDIARIES

SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services	Support Services		
	Youth Recovery Support	Management and General	Fundraising	Total Expenses
Salaries	$ 572,935	$ 308,504	$ -	$ 881,439
Payroll taxes and employee benefits	70,470	37,945	-	108,415
Total Salaries and Related Expenses	643,405	346,449	-	989,854
Advertising	-	98,287	-	98,287
Bank fees	-	10,576	-	10,576
Computer and internet	73,697	-	-	73,697
Conferences and training	17,499	-	144,805	162,304
Donations	470,331	-	-	470,331
Depreciation	20,316	2,257	-	22,573
Dues and Subscriptions	-	6,210	-	6,210
Insurance	-	11,739	-	11,739
Occupancy	65,211	35,114	-	100,325
Office expense	-	129,626	-	129,626
Postage and delivery	-	8,425	-	8,425
Professional fees	16,600	186,510	-	203,110
Program costs	363,305	-	-	363,305
Travel	14,972	34,934	-	49,906
	$ 1,685,336	$ 870,127	$ 144,805	$ 2,700,268

See accompanying notes.

TRANSFORMING YOUTH RECOVERY AND SUBSIDIARIES

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.