## TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Auditor’s Report</td>
<td>1 - 2</td>
</tr>
<tr>
<td>Statement of Financial Position</td>
<td>3</td>
</tr>
<tr>
<td>Notes to Financial Statement</td>
<td>4 - 12</td>
</tr>
</tbody>
</table>

Independent Auditor’s Report

To the Board of Directors
A Reason To Survive
National City, California 91950

Report on the Financial Statements

We have audited the accompanying statement of financial position of A Reason To Survive as of June 30, 2014, and the related notes to the statement of financial position.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement 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 the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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 statement of financial position referred to above presents fairly, in all material respects, the financial position of A Reason To Survive as of June 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

Leafl Cole LLP
San Diego, California
July 22, 2015
## ASSETS

**Assets:** (Notes 1, 2, 3, 4, 5, and 6)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 22,966</td>
</tr>
<tr>
<td>Grants and other receivables, net</td>
<td>59,429</td>
</tr>
<tr>
<td>Contributions receivable, net</td>
<td>173,030</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>44,175</td>
</tr>
<tr>
<td>Beneficial interest in San Diego Foundation</td>
<td>175,962</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>$ 475,562</strong></td>
</tr>
</tbody>
</table>

## LIABILITIES AND NET ASSETS

**Liabilities:** (Notes 1, 7 and 8)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$ 66,543</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>34,125</td>
</tr>
<tr>
<td>Deferred lease</td>
<td>15,278</td>
</tr>
<tr>
<td>Custodial funds</td>
<td>8,910</td>
</tr>
<tr>
<td>Line of credit</td>
<td>62,176</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>187,032</strong></td>
</tr>
</tbody>
</table>

**Net Assets:** (Notes 1, 9 and 10)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>67,568</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>45,000</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>175,962</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td><strong>288,530</strong></td>
</tr>
</tbody>
</table>

**TOTAL LIABILITIES AND NET ASSETS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL LIABILITIES AND NET ASSETS</strong></td>
<td><strong>$ 475,562</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are integral part of the financial statement.
Note 1 - Organization and Significant Accounting Policies:

Organization

A Reason To Survive (ARTS) is a nonprofit corporation incorporated in the State of California and organized primarily to use visual and performing arts to bring change and purpose to the lives of children facing adversities. Located in National City, California, ARTS is a nationally recognized nonprofit organization that believes in the power of the arts and creativity to transform lives, especially those of youth, through the therapeutic powers of the arts. All forms of art are used as a vehicle to create positive, long lasting change in children and youth facing major life challenges; giving them not only a reason to survive but also a reason to succeed and soar.

Mission, Vision and Goals

A Reason To Survive is dedicated to providing, supporting, and advocating for arts programs that heal, inspire, and empower youth facing adversity. ARTS’ unique program framework and model creates a “one stop shop” for students to be exposed to, and engage in, the arts at various levels depending on their circumstances, skill level, and interest. Through the ARTS Center, creative place-making in the community, and numerous outreach initiatives, ARTS strives to heal, inspire, and empower children and youth who are suffering throughout San Diego and beyond.

ARTS is made up of a team of passionate and dedicated staff, volunteers, partners, donors, vendors, and students all working towards a common goal: To give youth A Reason To Survive through the arts and creativity.

Significant Accounting Policies

Method of Accounting

The financial statement of ARTS have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The financial statement presents information regarding the financial position according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets – Net assets not subject to donor imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of ARTS and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.
- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by ARTS.
Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Financial Statement Presentation (Continued)

The Financial Accounting Standards Board (FASB) has issued reporting standards for endowments of not-for-profit Organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

Estimates

The preparation of the financial statement in conformity with accounting principles generally accepted in the United States of America 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 statement. Actual results could differ from those estimates.

Risks and Uncertainties

ARTS invests in various types of investment securities which 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 such changes could materially affect the amounts reported in the statement of financial position.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.
Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

ARTS’s statement of financial position includes the following financial instrument that is required to be measured at fair value on a recurring basis:

- Beneficial interest in San Diego Foundation is considered a Level 3 asset which represents an approximation of the discounted future cash flow based on the fair value of the underlying assets.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management’s evaluation of outstanding receivables. The allowance for doubtful grants, other receivables and contributions receivable totaled $22,698 at June 30, 2014.

Contributions

Contributions are recognized when the donor makes a promise to give to ARTS that is in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Capitalization and Depreciation

ARTS capitalizes all expenditures in excess of $500 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted. Absent donor stipulations regarding how long those donated assets must be maintained, ARTS reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. ARTS reclassifies temporarily restricted net assets to unrestricted net assets at that time.
Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Capitalization and Depreciation (Continued)

Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

- Vehicles: 5 years
- Equipment: 3 - 5 years
- Furniture and fixtures: 7 years
- Leasehold improvements: 5 - 15 years

Compensated Absences

Accumulated unpaid vacation totaling $14,110 at June 30, 2014 is accrued when incurred and included in accounts payable and accrued expenses.

Deferred Revenue

Income received in advance on art project has been deferred will be recognized in the period in which art project progresses. Deferred revenue totaled $34,125 at June 30, 2014.

Deferred Lease

ARTS entered into an operating lease for building space. Rent expense is recognized on a straight-line basis over the term of the lease (July 1, 2012 through June 30, 2015). The lease agreement provides for three months of free rent, which was extended to eleven months following delays in moving into the building. The deferred lease represents discounted rent received in excess of the rent expense recognized. The deferred lease totaled $15,278 at June 30, 2014.

Income Taxes

ARTS is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. ARTS believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. ARTS is not a private foundation.

ARTS’s Return of Organization Exempt from Income Tax and Exempt Organization Business Income Tax Returns for Tax for the years ended June 30, 2014, 2013, 2012 and 2011 are subject to examination by Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.
Note 1 - Organization and Significant Accounting Policies: (Continued)

**Significant Accounting Policies (Continued)**

**Concentration of Credit Risk**

ARTS maintains its cash in bank accounts which, at times, may exceed federally insured limits. ARTS has not experienced any losses in such accounts. ARTS believes it is not exposed to any significant credit risk on cash and cash equivalents.

Contributions, grants and other receivables are substantially all receivable from individuals and entities located within the same geographical area. Additionally, 62% of contributions receivable are from one organization.

**Subsequent Events**

In preparing this financial statement, ARTS has evaluated events and transactions for potential recognition or disclosure through July 22, 2015, the date the financial statements were available to be issued.

**Note 2 - Fair Value Measurements:**

The following table summarizes assets measured at fair value by classification within the fair value hierarchy at June 30:

<table>
<thead>
<tr>
<th>2014</th>
<th>Quoted Prices in Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
<th>Balance at June 30, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficial interest in San Diego Foundation (Note 6)</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 175,962</td>
<td>$ 175,962</td>
</tr>
<tr>
<td></td>
<td>$ -</td>
<td>$ -</td>
<td>$ 175,962</td>
<td>$ 175,962</td>
</tr>
</tbody>
</table>

The reconciliation for financial instruments measured at fair value on a recurring basis as significant unobservable inputs (Level 3) are included in the Notes as indicated above.

**Note 3 - Grants and Other Receivables:**

Grants and other receivables consist of the following at June 30, 2014:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>California Arts Council</td>
<td>$ 45,000</td>
</tr>
<tr>
<td>National City</td>
<td>14,914</td>
</tr>
<tr>
<td>Other</td>
<td>14,429</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>74,343</td>
</tr>
<tr>
<td>Less: Allowance for doubtful accounts</td>
<td>(14,914)</td>
</tr>
<tr>
<td>Grants and Other Receivables, Net</td>
<td>$ 59,429</td>
</tr>
</tbody>
</table>
Note 4 - Contributions Receivable:

Contributions receivable consist of the following at June 30, 2014:

Current:
- Due in less than one year $153,634
- Less: Allowance for doubtful accounts (7,784)
  Total Current, Net $145,850

Noncurrent:
- Due in one to five years 30,000
- Less: Discounts to present value (2,820)
  Total Noncurrent, Net 27,180

Total Contributions Receivable, Net $173,030

The contributions receivable have been discounted to their present value using a discount rate of 6.25% at June 30, 2014.

Note 5 - Property and Equipment:

Property and equipment consist of the following at June 30, 2014:

Vehicle $70,178
Equipment 59,670
Furniture and fixtures 45,931
Leasehold improvements 9,657
Subtotal 185,436

Less: Accumulated depreciation (141,261)

Property and Equipment, Net $44,175

Note 6 - Beneficial Interest in San Diego Foundation:

ARTS has a beneficial interest in endowment funds held at San Diego Foundation, which are classified as permanently restricted as these investments must be maintained in perpetuity. The beneficial interest in San Diego Foundation is invested in a portfolio of equity and debt securities, which is structured for long-term total return, consisting of 27% domestic equities, 24% international equities, 6% global equities, 20% alternative investments, 17% fixed income and 6% real estate. The beneficial interest in San Diego Foundation totaled $175,962 at June 30, 2014.
Note 7 - Custodial Funds:

ARTS acts as the fiscal agent for the Patongo Fund. The Patongo Fund was started by a group of filmmakers to improve the lives of children who cannot escape the violence of war in Patongo, Uganda. The funds are used to support the education of Patongo secondary students and create a safe environment for learning. As the fiscal agent, ARTS holds the unspent funds and reports the liability as custodial funds in the statement of financial position. Custodial funds totaled $8,910 at June 30, 2014.

Note 8 - Line of Credit:

ARTS has a $100,000 line of credit with US Bank bearing interest at the Wall Street Journal Prime Rate plus 3.0% (6.25% at June 30, 2014). The line of credit is secured by all accounts of ARTS. The outstanding balance of the line of credit totaled $62,176 at June 30, 2014.

Note 9 - Temporarily Restricted Net Assets:

Temporarily restricted net assets represent contributions, which are limited in their use by the donor-imposed stipulations. Temporarily restricted net assets are available for the following purposes at June 30, 2014:

| Grants receivable - Time restriction | $ 45,000 |

Note 10 - Endowment Net Assets:

ARTS’s endowment fund was established to provide general charitable support. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. ARTS holds its endowment fund in the San Diego Foundation (SDF).

In regards to the funds held and managed by ARTS, the Board of Directors of ARTS has interpreted the enacted version of the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ARTS classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment (2) the original value of subsequent gifts donated to the permanent endowment (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ARTS in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, ARTS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of ARTS and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of ARTS
7. The investment policies of ARTS
Note 10 - Endowment Net Assets: (Continued)

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires ARTS to retain as a fund of perpetual duration. There were no such deficiencies at June 30, 2014.

ARTS has adopted investment and spending policies for endowment funds that:

1. Protect the invested assets
2. Preserve spending capacity of the fund income
3. Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a moderate level
4. Comply with applicable laws

ARTS’s endowment funds are invested in a diversified portfolio of mutual funds that are structured to satisfy its long-term rate-of-return objectives. ARTS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The endowment funds of ARTS held by San Diego Foundation (“SDF”) are managed in accordance with UPMIFA. SDF’s objective is to maintain the purchasing power (real value) of the endowment funds. However, from time to time, the fair value of the assets in the endowment fund may fall below the level that the donors require ARTS to retain as a fund of perpetual duration. ARTS classifies permanently restricted net assets held by SDF as:

1. The original value of gifts donated to the fund
2. The original value of ARTS funds transferred to the fund
3. The original value of subsequent gifts donated to the fund
4. Investment income and realized and unrealized gains and losses on investments
5. Distributions from the fund in accordance with the spending policy

SDF has adopted investment and spending policies for endowment funds that:

1. Protect the invested assets
2. Preserve spending capacity of the fund income
3. Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a level commensurate with that of the median fund in comparable foundations
4. Comply with applicable laws

SDF’s endowment funds are invested in a diversified portfolio of equity and debt securities, which is structured for long-term total return. SDF’s spending policy is to disburse 5% annually, based upon endowment principal market value over the last 36 months. These calculations are made on a monthly basis. If the market value of the Endowment Principal of any fund, at the end of each month, is less than the initial value of all contributions made to the Endowment Principal, then distributions will be limited to interest and dividends received.
Note 10 - Endowment Net Assets: (Continued)

Endowment composition by type of fund at June 30, 2014:

<table>
<thead>
<tr>
<th></th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Diego Foundation</td>
<td>$ -</td>
<td>$ 175,962</td>
<td>$ 175,962</td>
</tr>
<tr>
<td>Total Endowment Net Assets</td>
<td>$ -</td>
<td>$ 175,962</td>
<td>$ 175,962</td>
</tr>
</tbody>
</table>