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FRESH YOUTH INITIATIVES, INC.

Audited Financial Statements

May 31, 2012

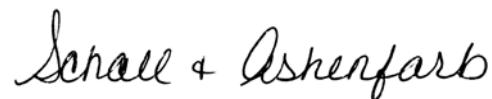
REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Fresh Youth Initiatives, Inc.

We have audited the accompanying statement of financial position of Fresh Youth Initiatives, Inc. ("FYI") as of May 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of FYI's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from FYI's May 31, 2011 financial statements and, in our report dated December 6, 2011, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fresh Youth Initiatives, Inc. as of May 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Schall & Ashenfarb
Certified Public Accountants, LLC

October 4, 2012

FRESH YOUTH INITIATIVES, INC.
STATEMENT OF FINANCIAL POSITION
AS OF MAY 31, 2012
(With comparative totals for May 31, 2011)

	<u>5/31/12</u>	<u>5/31/11</u>
Assets		
Cash and cash equivalents (Notes 2e and 2f)	\$87,473	\$61,705
Investments (Notes 2g and 3)	171,166	182,521
Contributions receivable (Note 2d)	0	14,406
Government grants receivables (Note 2d)	3,188	21,645
Prepaid expenses	3,756	6,285
Fixed assets, net of accumulated depreciation (Notes 2h and 4)	<u>3,291,683</u>	<u>3,392,319</u>
 Total assets	 <u><u>\$3,557,266</u></u>	 <u><u>\$3,678,881</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	<u>\$18,830</u>	<u>\$25,233</u>
Total liabilities	<u>18,830</u>	<u>25,233</u>
Net assets (Note 2b):		
Unrestricted	3,383,223	3,465,526
Temporarily restricted (Note 5)	3,463	36,372
Permanently restricted (Note 6)	<u>151,750</u>	<u>151,750</u>
Total net assets	<u>3,538,436</u>	<u>3,653,648</u>
 Total liabilities and net assets	 <u><u>\$3,557,266</u></u>	 <u><u>\$3,678,881</u></u>

The attached notes and auditors' report are an integral part of these financial statements.

FRESH YOUTH INITIATIVES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2012
(With comparative totals for the year ended May 31, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 5/31/12	Total 5/31/11
Public support and revenue:					
Government grants	\$80,047			\$80,047	\$68,136
Foundation grants	467,761			467,761	408,007
Individual contributions	115,266			115,266	128,415
Corporate grants	77,542			77,542	16,120
Other grants	1,250			1,250	4,237
Special events income	4,505			4,505	4,787
Interest income	8,195			8,195	7,304
Unrealized (loss)/gain on investments	(1,850)	(\$8,409)		(10,259)	14,812
In-kind contributions (Note 7)	22,298			22,298	23,911
Other revenue	4,426			4,426	8,074
Net assets released from restrictions	24,500	(24,500)		0	0
Total public support and revenue	803,940	(32,909)	0	771,031	683,803
Expenses:					
Program services	694,532			694,532	633,908
Supporting services:					
Management and general	74,767			74,767	87,538
Fundraising	116,944			116,944	59,449
Total supporting services	191,711	0	0	191,711	146,987
Total expenses	886,243	0	0	886,243	780,895
Change in net assets	(82,303)	(32,909)	0	(115,212)	(97,092)
Net assets - beginning	3,465,526	36,372	151,750	3,653,648	3,750,740
Net assets - ending	\$3,383,223	\$3,463	\$151,750	\$3,538,436	\$3,653,648

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FRESH YOUTH INITIATIVES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MAY 31, 2012
(With comparative totals for the year ended May 31, 2011)

	Program Services	Supporting Services			Total Expenses 5/31/12	Total Expenses 5/31/11
		Management and General	Fundraising	Total		
Personnel services	\$313,642	\$31,082	\$37,580	\$68,662	\$382,304	\$302,420
Payroll taxes and benefits	58,399	5,788	6,997	12,785	71,184	69,949
Consulting and professional	25,669	19,859	45,763	65,622	91,291	84,530
Occupancy	26,416	1,994	2,410	4,404	30,820	31,583
Donated food for pantry (Note 7)	22,298			0	22,298	23,911
Supplies	12,263	214	1,397	1,611	13,874	8,261
Communications	7,674	646	782	1,428	9,102	4,273
Travel	3,972	5	5	10	3,982	5,268
Program expense	61,213	60	143	203	61,416	43,940
Equipment rental and maintenance	38,002	3,701	4,474	8,175	46,177	36,042
Stipends	6,395			0	6,395	12,274
Printing and publications	1,985	197	3,044	3,241	5,226	2,251
Postage and shipping	683	65	657	722	1,405	1,225
Insurance	18,520	1,836	2,219	4,055	22,575	14,314
Miscellaneous	14,839	1,139	1,580	2,719	17,558	19,025
Bad debt				0	0	18,571
Total expenses before depreciation	611,970	66,586	107,051	173,637	785,607	677,837
Depreciation	82,562	8,181	9,893	18,074	100,636	103,058
Total expenses	\$694,532	\$74,767	\$116,944	\$191,711	\$886,243	\$780,895

The attached notes and auditors' report are an integral part of these financial statements.

FRESH YOUTH INITIATIVES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MAY 31, 2012
(With comparative totals for the year ended May 31, 2011)

	<u>5/31/12</u>	<u>5/31/11</u>
Cash flows from operating activities:		
Change in net assets	(\$115,212)	(\$97,092)
Adjustments to reconcile change in net assets to net cash provided by/(used for) operating activities:		
Depreciation	100,636	103,058
Realized loss/(gain)	242	(74)
Unrealized loss/(gain)	10,017	(14,738)
(Increase)/decrease in assets:		
Contributions receivable	14,406	108,358
Government grants receivables	18,457	816
Prepaid expenses	2,529	(219)
(Decrease)/increase in liabilities:		
Accounts payable and accrued expenses	<u>(6,403)</u>	<u>(7,099)</u>
Total adjustments	<u>139,884</u>	<u>190,102</u>
Net cash provided by operating activities	<u>24,672</u>	<u>93,010</u>
Cash flows from investing activities:		
Purchase of investments	(72,803)	(210,712)
Sale of investments	73,899	51,824
Purchase of equipment	<u>0</u>	<u>(24,624)</u>
Net cash provided by/(used for) investing activities	<u>1,096</u>	<u>(183,512)</u>
Net increase/(decrease) in cash and cash equivalents	25,768	(90,502)
Cash and cash equivalents - beginning	<u>61,705</u>	<u>152,207</u>
Cash and cash equivalents - ending	<u><u>\$87,473</u></u>	<u><u>\$61,705</u></u>
Supplemental disclosures:		
Interest paid - \$0		
Taxes paid - \$0		

The attached notes and auditors' report are an integral part of these financial statements.

FRESH YOUTH INITIATIVES, INC.
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2012

Note 1 - Organization

Fresh Youth Initiatives, Inc. ("FYI") is a not-for-profit organization incorporated in the State of New York. Founded in 1993, FYI is based in the Washington Heights Inwood section of Upper Manhattan, New York City.

FYI's community-based youth development program provides local youth with a menu of community service and other positive activities. The results of these efforts build leadership skills, character, and positive habits in hundreds of local youth, while at the same time strengthening the community fabric of Washington Heights Inwood in tangible ways. FYI is known in particular for operating the only youth-run food pantry in New York City, the Helping Hands Food Pantry, its sleeping bags project where participants hand-sew sleeping bags for distribution to the homeless, and for the high degree of youth involvement and leadership in service projects.

FYI also operates a 1-to-1 Mentoring Program, a Career Awareness Program, and a special set of summer activities which includes the "Summer of Service" camp for younger participants.

Note 2 - Significant Accounting Policies

a. Basis of Accounting

The financial statements of FYI have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables, and other liabilities.

b. Basis of Presentation

As a not-for-profit organization, FYI reports information regarding its financial position and activities according to specific classes of net assets, as follows:

- *Unrestricted* – represents all activity without donor imposed restrictions.
- *Temporarily restricted* – represents those resources, the uses of which have been restricted by donors to specific purposes or the passage of time. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor. (See Note 5 for details.)
- *Permanently restricted* – those assets, which have been restricted by the donor and must remain intact, in perpetuity. (See Note 6 for details.)

c. Income Recognition

Contributions are recorded as revenue upon receipt of cash or at the time a pledge is considered unconditional. Contributions received with specific donor restrictions are recorded in the temporarily or permanently restricted class of net assets, depending on the nature of the restriction. All other contributions are recorded as unrestricted. When temporarily restricted contributions have been satisfied in the same year of donation, they are reported as unrestricted.

Each government grant is reviewed to determine if it has traits that more closely resemble contributions or exchange transactions. Government grants that are recorded as exchange transactions are recognized as revenue when earned.

d. Receivables

Pledges receivable are recorded when contributions are considered unconditional. Government grants receivable arise when cash received is less than revenue earned. Receivables expected to be collected within one year are recorded at their net realizable value. Conditional contributions are recognized as income when the conditions have been substantially met.

All contributions and grants receivable outstanding at May 31, 2012 are due within 12 months. Based on a specific review of outstanding receivables and factoring historical experience, management deems all receivables to be fully collectable and has not established any reserves. At the time collection efforts are fully exhausted, bad debt expense will be recorded.

e. Cash and Cash Equivalents

FYI considers all liquid investments with an initial maturity of three months or less to be cash and cash equivalents, with the exception of cash held within the endowment account. Cash held for endowments has been classified as investments.

f. Concentration of Credit Risk

Financial instruments which potentially subject FYI to concentration of credit risk consist of cash, money market accounts and investment securities.

FYI places its temporary cash and money market accounts with financial institutions they believe are creditworthy. At times, deposits may exceed federally insured limits. FYI has not experienced any losses from these accounts due to bank failures.

The market value of investments is subject to fluctuation, however management believes the investment policy is prudent for the long-term welfare of FYI.

g. Investments

Investments are recorded at fair market value, which refers to the price that would be received by selling an asset in an orderly transaction between market participants at the measurement date. Unrealized gains and losses are included in income on the statement of activities.

h. Fixed Assets

Purchases of property and equipment that exceed predetermined amounts where FYI retains title and that benefit future periods are capitalized at cost, or if donated, at the estimated fair market value at the time of donation. Fixed assets are depreciated using the straight-line method over the estimated useful life of the assets.

i. Expense Allocation/Management Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of FYI.

j. Tax Exempt Status

FYI is a not-for-profit organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

k. Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with FYI's financial statements for the period ended May 31, 2011, from which the summarized information was derived.

l. Accounting for Uncertainty of Income Taxes

FYI has adopted the provisions of FASB ASC 740, *Income Taxes*, which applies to positions taken or expected to be taken in a tax return. Organizations are required to recognize the effects of tax positions if they are more likely than not of being sustained. FYI does not believe its financial statements include any uncertain tax positions.

m. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 4, 2012 the date the financial statements were available to be issued. All events that have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements have been made. (See Note 8.)

Note 3 - Investments

A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the securities based on market data obtained from sources independent of FYI. Unobservable inputs reflect FYI's assumptions about the inputs that market participants would use in pricing the security developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that FYI has the ability to access.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all

significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

At May 31, 2012, investments consisted of the following:

	<u>Total</u>		
Endowment	\$163,825		
Other	<u>7,341</u>		
	<u>\$171,166</u>		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Equity (corporate stocks)	\$88,997	\$62,560	\$26,437
Mutual funds	1,224	1,224	0
Exchange traded funds	44,036	44,036	0
Mortgage backed securities	20,676	0	20,676
Cash and money funds	<u>16,233</u>	<u>16,233</u>	<u>0</u>
	<u>\$171,166</u>	<u>\$124,053</u>	<u>\$47,113</u>

Note 4 - Fixed Assets

At May 31, 2012, fixed assets consisted of the following:

	<u>Life</u>	<u>Amount</u>
Building and building improvements	39 years	\$3,494,557
Equipment	3 to 7 years	124,464
Land		313,637
Less: accumulated depreciation		<u>(640,975)</u>
Net: property and equipment		<u>\$3,291,683</u>

Note 5 - Temporarily Restricted Net Assets

Unappropriated gains on endowment funds in the amount of \$3,463 were classified as temporarily restricted.

Net assets of \$24,500 were released due to satisfaction of purpose restrictions.

Note 6 - Permanently Restricted Net Assets/Endowment Funds

The endowment includes donations to be held in perpetuity in an investment account.

Interpretation of Relevant Law

On September 17, 2010, New York State adopted New York Prudent Management of Institutional Funds Act (“NYPMIFA”). The Board of Directors of FYI has interpreted NYPMIFA as requiring certain amounts to be retained permanently. Absent explicit donor stipulations to the contrary, FYI will preserve the fair value of the original gift as of the gift date of all donor-restricted endowment funds. However, under certain circumstances, FYI has the right to appropriate for expenditure the fair value of the original gift in a manner consistent with the standard of prudence specifically prescribed by NYPMIFA.

As a result of this interpretation, FYI classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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.

Absent any specific donor-stipulations, when endowment funds have earnings in excess of amounts that need to be retained permanently, these excess amounts are classified as temporarily restricted net assets until appropriated for expenditure by the organization's governing board.

Spending Policies

In accordance with NYPMIFA, FYI may consider 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 FYI 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 FYI;
- (7) The investment policies of FYI;
- (8) Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on FYI.

FYI does not have a spending policy and it is currently accumulating market value gains for future appropriation, if deemed prudent and necessary and uses interest and dividends to support operations consistent with the endowment agreement.

Changes in endowment net assets for the year ended May 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$7,138	\$11,872	\$151,750	\$170,760
Interest and dividend income	1,474	0	0	1,474
Net loss on investments	<u>0</u>	<u>(8,409)</u>	<u>0</u>	<u>(8,409)</u>
Endowment net assets, end of year	<u>\$8,612</u>	<u>\$3,463</u>	<u>\$151,750</u>	<u>\$163,825</u>

Endowment Investment Policies

FYI 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). FYI targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NYPMIFA requires FYI to retain as a fund of perpetual duration. There were no such deficiencies as of May 31, 2012.

Note 7 - In-Kind Contributions

FYI receives food for use in their pantry, which is recorded as a contribution and program expense at fair market value.

Donated services are required to be recorded if they create or enhance non-financial assets, or require specialized skills, are performed by those that possess those skills and would have been purchased if not donated. Board members and other individuals volunteer their time and perform a variety of tasks that assist FYI. These services do not meet the criteria to be recorded and have not been included in the financial statements.

Note 8 - Subsequent Events

On May 31, 2011, FYI entered into an agreement to acquire the program and remaining assets of Cornerstone Learning Center Inc. ("Cornerstone"), a not-for-profit organization that has a mission to help disadvantaged and underserved youth in New York City, attain academic and personal life skills. During the fiscal year ended May 31, 2012, FYI performed some of the Cornerstone programs and received support that was restricted for this program. The final approval of the acquisition by the New York State Attorney General's office is expected to occur during the next fiscal year.