

Fresh Lifelines For Youth, Inc.

Financial Statements
and Other Audit Report

June 30, 2024



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Fresh Lifelines For Youth, Inc.
Milpitas, California

Opinion

We have audited the accompanying financial statements of Fresh Lifelines For Youth, Inc. ("FLY"), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fresh Lifelines For Youth, Inc. as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Fresh Lifelines For Youth, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Fresh Lifelines For Youth, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fresh Lifelines For Youth, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Fresh Lifelines For Youth, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2025, on our consideration of FLY's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of FLY's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FLY's internal control over financial reporting and compliance.



Armanino^{LLP}
San Francisco, California

January 31, 2025

Fresh Lifelines For Youth, Inc.
Statement of Financial Position
June 30, 2024

ASSETS

Cash	\$ 1,088,537
Investments	3,110,848
Grants and contracts receivable	1,825,934
Prepaid expenses	91,777
Deposits	28,809
Operating lease right-of-use asset	528,880
Property and equipment, net	<u>137,204</u>
 Total assets	 <u><u>\$ 6,811,989</u></u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable	\$ 131,655
Accrued expenses	695,046
Refundable advances	171,766
Operating lease liabilities	<u>527,686</u>
Total liabilities	<u>1,526,153</u>
 Net assets	
Without donor restrictions	4,251,192
With donor restrictions	<u>1,034,644</u>
Total net assets	<u>5,285,836</u>
 Total liabilities and net assets	 <u><u>\$ 6,811,989</u></u>

The accompanying notes are an integral part of these financial statements.

Fresh Lifelines For Youth, Inc.
Statement of Activities
For the Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Government grants	\$ 4,512,605	\$ -	\$ 4,512,605
Foundation contributions	51,286	3,896,963	3,948,249
Corporate contributions	68,970	-	68,970
Individual contributions	723,666	84,137	807,803
In-kind contributions	420,269	-	420,269
Proceeds from fundraising events	291,317	-	291,317
Employee Retention Credit revenue	391,684	-	391,684
Program service fees - fee for service contracts	275,755	-	275,755
Investment income, net	102,821	-	102,821
Net realized and unrealized gain/(loss)	226,748	-	226,748
Net assets released from restriction	<u>4,475,674</u>	<u>(4,475,674)</u>	<u>-</u>
Total revenues, gains, and other support	<u>11,540,795</u>	<u>(494,574)</u>	<u>11,046,221</u>
Functional expenses			
Program services	<u>8,157,520</u>	<u>-</u>	<u>8,157,520</u>
Support services			
Management and general	2,514,055	-	2,514,055
Fundraising	<u>774,482</u>	<u>-</u>	<u>774,482</u>
Total support services	<u>3,288,537</u>	<u>-</u>	<u>3,288,537</u>
Total functional expenses	<u>11,446,057</u>	<u>-</u>	<u>11,446,057</u>
Change in net assets	94,738	(494,574)	(399,836)
Net assets, beginning of year	<u>4,156,454</u>	<u>1,529,218</u>	<u>5,685,672</u>
Net assets, end of year	<u>\$ 4,251,192</u>	<u>\$ 1,034,644</u>	<u>\$ 5,285,836</u>

The accompanying notes are an integral part of these financial statements.

Fresh Lifelines For Youth, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2024

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 4,729,334	\$ 1,659,502	\$ 502,941	\$ 6,891,777
Employee benefits	617,498	231,021	24,576	873,095
Payroll taxes	438,273	99,322	33,304	570,899
Professional fees	354,473	232,903	59,868	647,244
Stipends and scholarships	289,839	1,920	578	292,337
Occupancy	298,845	7,447	5,815	312,107
Telephone	111,868	29,116	12,260	153,244
Conferences and meetings	42,670	35,437	4,077	82,184
Travel/mileage	145,060	9,354	1,094	155,508
Office supplies	26,586	6,877	2,896	36,359
Printing and publications	16,000	4,196	1,743	21,939
Equipment rental and maintenance	52,978	13,783	5,803	72,564
Insurance	28,329	7,508	3,052	38,889
In-kind professional fees	162,806	43,405	17,436	223,647
In-kind rent	152,142	33,054	11,426	196,622
Program activities and training	314,091	493	1,790	316,374
Fundraising events costs	4,312	1,122	54,193	59,627
Program supplies	154,085	4,457	5,444	163,986
Miscellaneous	181,067	84,392	22,866	288,325
Depreciation	37,264	8,746	3,320	49,330
	<u>\$ 8,157,520</u>	<u>\$ 2,514,055</u>	<u>\$ 774,482</u>	<u>\$ 11,446,057</u>

The accompanying notes are an integral part of these financial statements.

Fresh Lifelines For Youth, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2024

Cash flows from operating activities	
Change in net assets	\$ (399,836)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	49,330
Realized and unrealized gains on investments, net	(226,748)
Contributed stock	(53,648)
Amortization of operating lease right-of-use asset	177,612
Changes in operating assets and liabilities	
Grants and contracts receivable	(504,780)
Prepaid expenses	3,806
Accounts payable	13,502
Accrued expenses	46,981
Refundable advances	171,766
Operating lease liabilities	(173,519)
Net cash used in operating activities	<u>(895,534)</u>
Cash flows from investing activities	
Purchases of investments	(102,165)
Purchases of property and equipment	<u>(18,874)</u>
Net cash used in investing activities	<u>(121,039)</u>
Net decrease in cash	(1,016,573)
Cash, beginning of year	<u>2,105,110</u>
Cash, end of year	<u><u>\$ 1,088,537</u></u>

Supplemental schedule of noncash investing and financing activities

Operating lease right-of-use assets obtained in exchange for operating lease liabilities	\$ 402,032
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The accompanying notes are an integral part of these financial statements.

Fresh Lifelines For Youth, Inc.
Notes to Financial Statements
June 30, 2024

1. NATURE OF OPERATIONS

Founded in 2000, FLY is an award-winning nonprofit working to prevent juvenile crime and incarceration. We serve, support, and partner with youth impacted by the justice system in Alameda, San Mateo, Santa Clara and Contra Cost County counties. We work with 1,500 to 2,000 Bay Area young people ages 11 to 25 who are in various points of the pipeline to prison for young people. This pipeline is disproportionately filled by youth of color, youth living in poverty, those living with disabilities, kids in the foster care system, LBGQ/gender-nonconforming/trans youth, and youth who have been subjected to neglect, abuse, trauma, or other violence.

FLY teaches youth about their rights and supports them to build critical thinking skills. Together, we're creating the building blocks for their long-term growth and wellbeing through advancing in school, staying out of the system, gaining employment, forming relationships with positive mentors and role models, and more. At its core, our model is based on relationships, love, equity, and justice. It is highly respected by members of our local juvenile justice systems including judges, probation chiefs, district attorneys, public defenders, and school officials, because it works:

- Our young people are drastically reducing their involvement in the justice system, increasing their academic performance, and gaining critical life skills that lead to jobs, community involvement, and leadership.
- We're seeing the systems improve as well. There are significantly fewer kids being locked up in the counties we currently serve than when we started. In one county, we saw a 75% reduction in kids sent to juvenile hall over two decades.
- And FLY's young people are discovering and harnessing their power to become catalysts for change. For example, kids who were once struggling on probation are now training probation officers, and kids who were once incarcerated are now on civic task forces to improve public safety. They are becoming an integral part of systems change and reform.

The following is a list of FLY's main programs. The descriptions below cover the standard program model; adjustments continue to be made as needed to ensure that programs operate in compliance with local health orders and following guidance from the CDC.

FLY Law Program

In the FLY Law Program, our staff and carefully recruited, highly trained volunteers teach a fun, interactive 8- to 12-week course using our nationally recognized legal education curriculum, which covers relevant topics such as police encounters, accomplice liability, three strikes, theft, vandalism, drugs, gangs, and police arrests.

Fresh Lifelines For Youth, Inc.
Notes to Financial Statements
June 30, 2024

1. NATURE OF OPERATIONS (continued)

FLY Law Program (continued)

The law curriculum is interesting and engaging to the youth, and is also an excellent vehicle for us to teach critical life skills like anger management, problem solving, conflict resolution, and resisting negative peer pressure. Everything is taught in a nonjudgmental manner with no stigma is attached, which makes the youth more willing to learn. Mid-way through the semester, youth take a field trip to a local university law school where they tour the campus and act out a mock trial in the moot courtroom. The Law Program classes are taught in schools, community centers, juvenile halls, and juvenile camps and ranches.

FLY Leadership Training Program

The Leadership Training Program targets youth who are experiencing challenges or barriers that could lead to involvement in the justice system involvement. FLY supports them in building the skills and attitudes they need to live a crime-free, self-sufficient life. The program kicks off with a three-day wilderness retreat that enables youth to break away from negative influences and stresses in order to begin bonding with FLY staff and peers and developing trust and teamwork skills. Youth then meet bi-monthly to support each other in group settings and to design service learning projects in which they give back to the community. Each leadership youth receives intensive coaching from a FLY case manager to identify and address their greatest barriers to living a healthy, productive life.

Court Appointed Friend and Advocate Mentor Program

FLY's CAFA Mentor Program pairs caring, trained adult volunteers with youth on probation for a year-long mentoring relationship. Before they are matched with a youth, CAFA Mentors complete 26 hours of initial training and orientation and commit to follow-up trainings once every three months. Once matched, Mentors build positive relationships with youth through weekly 1-on-1 meetings and activities, helping them to develop new ambitions, set and achieve goals, and learn to have fun in a positive, sober way. In addition to being friends and role models to youth, FLY CAFA Mentors are specially appointed by a juvenile court judge so that they can advocate for their mentee by attending juvenile court proceedings, submitting court reports, and addressing the court on behalf of the youth. Each mentor/mentee match has a FLY case manager for support and also attends monthly group activities organized by FLY.

FLY Middle School Program

The FLY Middle School Program helps interrupt the school-to-prison pipeline in which kids with issues at school are disciplined and pushed into the juvenile justice system instead of being offered the services they need. Our program supports seventh and eighth graders who are referred by school officials in Santa Clara County to stay engaged in school and out of the system. The program offers an age-appropriate version of FLY's Law Program along with one-on-one support from a FLY case manager for youth and positive social activities and civic engagement opportunities provided through FLY.

Fresh Lifelines For Youth, Inc.
Notes to Financial Statements
June 30, 2024

1. NATURE OF OPERATIONS (continued)

FLY Reentry Program

Youth seeking to reenter the community after incarceration typically face a host of barriers to a successful transition. Reentry assistance is a critical service that's been proven to help youth move forward in a positive direction and avoid going back into the system. The FLY Reentry Program serves youth in longer term incarceration in Santa Clara and San Mateo counties. It runs for approximately 6-9 months (possible extension up to a year if needed) and consists of four phases: pre-release, transition, try-out, and transfer of care. During this time, the assigned Case Manager will develop a trusting relationship with the youth, provide support and connection, monitor and strengthen support network and youth's skills, and end program services with a support network safely in place.

STAY FLY

The STAY FLY program is a reentry program that develops social-emotional learning (SEL) skills and knowledge of the law in transition age youth (TAY). These young people, ages 18-21 (Santa Clara County) or 18-25 (Alameda County and San Mateo County), receive support beginning in custody, and continue to be supported by FLY staff as they transition back into the community. STAY FLY's Law Related Education builds agency and self-advocacy through legal education workshops led by trained FLY facilitators who provide valuable information about the justice system and how it affects their lives. With this understanding, youth find ways to navigate the system while building their ability to make better choices. Youth also meet to support each other in group settings and participate in activities that are fun and engaging while helping them find ways to improve the communities that matter most to them. Each young person also has the opportunity to have individualized case management, which is intensive, one-on-one support to help youth build a much larger support network throughout the community.

Youth Advisory Council

The Youth Advisory Councils (YAC) are collaborative effort between the Santa Clara County and Alameda County probation departments and Fresh Lifelines for Youth to introduce positive system change through the inclusion of youth voice. Each YAC provides youth who formerly participated in juvenile justice services with a unique opportunity to provide input on current system processes, policies, and practices. Young people who serve on the Council are sworn in as Youth Justice Consultants by a presiding juvenile court judge. Additionally, YAC allows youth the opportunity to use their stories and experiences to inspire hope and encourage change in the lives of youth who are currently involved in the juvenile justice system. YAC also has the objective of enhancing the professional development and leadership skills of its members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

FLY's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

Fresh Lifelines For Youth, Inc.
Notes to Financial Statements
June 30, 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

FLY's net assets are classified and reported based upon the existence or absence of donor-imposed restrictions as follows:

- *Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by the Board of Trustees or may be limited by contractual agreements with outside parties.
- *Net assets with donor restrictions* - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

FLY reports contributions restricted by donors as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses as of the date and for the period presented. Actual results could differ from these estimates.

Cash

FLY maintains cash with major financial institutions. Cash consists principally of amounts on hand and on deposit with commercial banks and available within 90 days of demand. The carrying amount of cash approximates fair value due to its short-term nature. A portion of cash has been restricted by donors for specific program uses.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Fresh Lifelines For Youth, Inc.
Notes to Financial Statements
June 30, 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements

FLY applies the U.S. GAAP authoritative guidance for *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. U.S. GAAP describes three levels of inputs that may be used to measure fair value:

- *Level 1* - Quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- *Level 2* - Significant other observable inputs (other than Level 1 prices) such as 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.
- *Level 3* - Unobservable inputs that are supported by little or no market activity, are significant to the fair value of the assets or liabilities and reflect management's assumptions and best estimates based on available data.

Investments consist of registered investment company shares (mutual funds and corporate stock) carried at fair value based on quoted prices in active markets (all Level 1 measurements).

Grants and contracts receivable

Grants and contracts receivable consist of receivables from government funding agencies and uncollected promises to give. FLY discounts long-term promises to give and estimates an allowance for uncollectible grants and contracts receivables based on historical collections experience. FLY classifies past due grants and contracts receivable based on grant or contract payment terms and charges off such past due grants receivable when management estimates that collection is less likely than not collecting. As of June 30, 2024, there were no discounts and allowances on grants and contracts receivable and all grants and contracts receivable are expected to be collected within one year of the statement of financial position date.

Property and equipment

FLY capitalizes all property and equipment purchased for more than \$5,000 and that provides future benefit to FLY beyond one year. Property and equipment is carried at cost, net of accumulated depreciation, or, if donated, at the estimated fair value on the date of the contribution. Minor repairs and maintenance are charged against earnings as incurred. Major repairs and maintenance that extend the useful life of the respective asset are capitalized. 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 support. Absent donor stipulations regarding how long those donated assets must be maintained, FLY reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Fresh Lifelines For Youth, Inc.
Notes to Financial Statements
June 30, 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Leasehold improvements	3 - 5 years
Furniture and equipment	3 - 5 years
Software	3 - 5 years

Revenue recognition

Contributions received are reported as net assets without donor restrictions or with donor restrictions depending on donor restrictions, if any. Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the barrier has been overcome and right of release/right of return no longer exists.

A portion of FLY's revenues is derived from cost-reimbursable government contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when FLY has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. As of June 30, 2024, FLY has approximately \$5,932,000 of cost-reimbursable grants that have been awarded but not yet recognized as revenues because qualifying expenditures have not yet been incurred.

In addition, FLY receives program services fees from fee-for-service grants. Revenue is recognized in accordance with the grant terms and as services are provided.

Contributed goods and in-kind donated services

Contributed materials and equipment are reflected as contributions in the accompanying statements at their estimated fair values at date of receipt. In-kind donated services are reflected in the financial statements at the fair value of the services received. In-kind donation of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. During the year ended June 30, 2024, FLY received \$223,647 in in-kind donations for general legal counsel and advisory services that met the criteria described above. FLY also recorded in-kind contributions for office space of \$196,622 during the year ended June 30, 2024. Contributions of general legal counsel and advisory services are valued based on the estimated rates that would be paid for these services in the local area. Contributions of office space are valued based on the market rates for similar space. Donated nonfinancial assets are used for programs and not monetized.

Fresh Lifelines For Youth, Inc.
Notes to Financial Statements
June 30, 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional expenses

The costs of providing FLY's various programs and other activities have been allocated on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited.

Some categories of expense are attributable to more than one function and are allocated on a consistent basis. FLY allocates indirect costs between program and supporting services, using estimates of usage and benefit, based principally on personnel hours. Depreciation for leasehold improvements and other fixed assets, utilities and rent are allocated based on square footage and estimated function.

Advertising costs

The production costs of advertising are expensed as incurred. During the year ended June 30, 2023, advertising costs charged to expense totaled \$21,939, and are recorded as printing and publication expenses on the Statement of Functional Expenses.

Income tax status

FLY is a not-for-profit organization that is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Service Code and therefore has made no provisions for federal income taxes in the accompanying financial statements. FLY is also exempt from state income taxes under Section 23701d of the California Revenue and Taxation Code. Management believes FLY has no uncertain tax positions as of June 30, 2024.

New accounting pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

FLY adopted the standard effective July 1, 2023. The impact of the adoption was not considered material to the financial statements.

Fresh Lifelines For Youth, Inc.
Notes to Financial Statements
June 30, 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

FLY leases office space and equipment under operating leases. FLY determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities on the statement of financial position. Finance leases are included in property and equipment and other long-term liabilities on the statement of financial position. FLY does not have any finance leases.

ROU assets represent FLY's right to use an underlying asset for the lease term and lease liabilities represent FLY's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As FLY's lease does not provide an implicit rate, FLY uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

FLY's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

FLY has elected not to recognize right-of-use assets and lease liabilities for short-term leases and instead records them in a manner similar to operating leases under legacy leasing guidelines. A short-term lease is one with a maximum lease term of 12 months or fewer and does not include a purchase option that the lessee is reasonably certain to exercise. FLY does not have any short-term leases.

Subsequent events

FLY has evaluated subsequent events through January 31, 2025, the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of FLY's financial statements.

3. LIQUIDITY AND FUNDS AVAILABLE

FLY monitors its liquidity in order to meet operating needs and other contractual commitments while maintaining sufficient resources to meet donor restrictions placed on contributed financial assets.

As part of FLY's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Fresh Lifelines For Youth, Inc.
Notes to Financial Statements
June 30, 2024

3. LIQUIDITY AND FUNDS AVAILABLE (continued)

The following quantitative disclosure describes assets that are available or expected to be available within one year of June 30, 2024, to fund general expenditures and obligations as they become due:

Financial assets:

Cash	\$ 1,088,537
Investments	3,110,848
Grants and contracts receivable	<u>1,825,934</u>
	6,025,319
Net assets restricted by donors for specific uses	<u>(1,034,644)</u>
	<u><u>\$ 4,990,675</u></u>

4. INVESTMENTS AND FAIR VALUE DISCLOSURES

The following table sets forth by level, within the fair value hierarchy, FLY's assets at fair value as of June 30, 2024:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Mutual funds - public equities	\$ 2,083,688	\$ -	\$ -	\$ 2,083,688
Mutual funds - fixed income	<u>1,027,160</u>	<u>-</u>	<u>-</u>	<u>1,027,160</u>
	<u><u>\$ 3,110,848</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,110,848</u></u>

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Software	\$ 265,138
Furniture and equipment	279,546
Leasehold improvements	<u>43,874</u>
	588,558
Accumulated depreciation	<u>(451,354)</u>
	<u><u>\$ 137,204</u></u>

Fresh Lifelines For Youth, Inc.
Notes to Financial Statements
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6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Justice Prevails Fund	\$ 306,579
Strategic planning	550,000
Other purpose restrictions	<u>178,065</u>
	<u><u>\$ 1,034,644</u></u>

Net assets with donor restrictions released from restriction during the year were as follows:

Justice Prevails Fund	\$ 407,500
Strategic planning	1,600,000
Other	<u>2,468,174</u>
	<u><u>\$ 4,475,674</u></u>

7. COMMITMENTS AND CONTINGENCIES

Operating leases

FLY leases office spaces and equipment through non-cancelable operating lease agreements that expire on varying dates through August 2028. Lease expenses associated with these lease agreements were \$233,366 during the year ended June 30, 2024, and are included in occupancy expense in the accompanying statement of functional expenses.

The components of operating lease costs and additional lease information are as follows:

Operating cash flows from operating leases	\$ 220,375
Weighted average remaining lease term	2.61 years
Weighted average discount rate	3.80 %

The scheduled minimum operating lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>	
2025	\$ 225,618
2026	186,078
2027	123,187
2028	21,760
2029	<u>248</u>
	556,891
Less: imputed interest	<u>(29,205)</u>
	<u><u>\$ 527,686</u></u>

Fresh Lifelines For Youth, Inc.
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8. CREDIT RISKS, CONCENTRATIONS AND UNCERTAINTIES

At times, FLY may maintain cash and investment balances in financial institutions in excess of the Federal Deposit Insurance Corporation ("FDIC") insured limits. FLY invests with financial institutions with strong credit ratings and has not experienced any such losses. Management believes FLY is not exposed to any significant credit risk related to cash and investment balances.

FLY has investments 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 FLY's account balances and the amounts reported in the statement of financial position.

Contributions and contributions receivable represent concentrations of credit risk to the extent they are receivable from concentrated sources. For the year ended June 30, 2024, contributions from one donor represented approximately 16% of total contributions. At June 30, 2024, approximately 51% of receivables are due from three donors.

Certain programs of FLY depend on contributions of services (volunteers). A significant reduction in volunteers or these sources of support and revenue, if this would occur, may adversely affect the programs and activities of FLY.

FLY receives certain support and revenue pursuant to various agreements with local governmental agencies. The agreements provide the agencies with the opportunity to review or audit the expenditures of support and performance of services to establish compliance with laws, regulations and the specific terms of the agreements. Management believes FLY complied in the terms of the agreements and that any adjustments, if they would occur, would be immaterial to the financial position of FLY.

9. EMPLOYEE RETENTION CREDIT

The Employee Retention Tax Credit ("ERC"), a refundable tax credit against certain employment taxes allowed to an eligible employer for qualifying wages, was established by the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and was subsequently amended through additional legislation. The tax credit is equal to 50% of the qualified wages, up to \$10,000 per employee, an employer whose business has been financially impacted by COVID-19 pays to employees after March 12, 2020, and before January 1, 2022.

FLY determined it was eligible to apply for the ERC and calculated a total ERC of \$391,684 for the wages paid during the period April 1, 2020 through December 31, 2020. As FLY has "substantially met" the program's eligibility conditions, FLY has recognized ERC income of \$391,684 for the year ended June 30, 2024 on the statement of activities and a receivable as part of grants and contracts receivable as of June 30, 2024 on the statement of financial position.

Fresh Lifelines For Youth, Inc.
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9. EMPLOYEE RETENTION CREDIT (continued)

The ERC program is subject to inspection and audit by the IRS. The purpose of such audits is to determine whether entities met eligibility requirements under the program and that funds were used in accordance with guidelines and regulations. While management believes FLY met the ERC requirements, it is possible that ERC funds recognized could ultimately be disallowed. The ultimate liability, if any, which may result from a governmental audit cannot be reasonably estimated and, accordingly, no provision for the possible disallowance of ERC funds has been recorded on FLY's financial statements.

10. RELATED PARTY

FLY received contributions totaling approximately \$208,000 from members of the Board for the year ended June 30, 2024.

11. DEFINED CONTRIBUTION RETIREMENT PLAN

FLY sponsors a defined contribution plan (the "Plan") under IRC Section 403(b) for its employees. The Plan allows participating employees to defer a portion of their compensation into income tax-deferred investments. During the year ended June 30, 2024, FLY provided a benefit stipend to its employees of 13% of their compensation. Employees may use their benefit stipend to purchase supplemental benefits and contribute to the Plan.

OTHER AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Fresh Lifelines For Youth, Inc.
Milpitas, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Fresh Lifelines For Youth, Inc. (the "FLY"), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated January 31, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the FLY's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FLY's internal control. Accordingly, we do not express an opinion on the effectiveness of the FLY's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FLY's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the FLY's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the FLY's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Armanino LLP". The signature is fluid and cursive, with the letters "Armanino" and "LLP" clearly distinguishable.

Armanino^{LLP}
San Francisco, California

January 31, 2025