

**Breakout Prison Outreach
dba California Youth Outreach**

Financial Statements

Year ended June 30, 2008

with

Report of Independent Auditors

**Breakout Prison Outreach
dba California Youth Outreach**

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WILSON
MARKLE
STUCKEY
HARDESTY
& BOTT

Report of Independent Auditors

Board of Directors

Breakout Prison Outreach dba California Youth Outreach

We have audited the accompanying statement of financial position of Breakout Prison Outreach dba California Youth Outreach as of June 30, 2008, and the related statements of activities and changes in net assets, functional expenses and overhead rate and cash flows for the year then ended. These financial statements are the responsibility of the management of Breakout Prison Outreach dba California Youth Outreach. Our responsibility is to express an opinion on these financial statements, based on our audit. Management of Breakout Prison Outreach dba California Youth Outreach derived the prior-year summarized comparative information from the financial statements as of and for the year ended June 30, 2007, and, in our report dated February 1, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 Breakout Prison Outreach dba California Youth Outreach as of June 30, 2008, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Wilson Markle Stuckey Hardesty & Bott
Wilson Markle Stuckey Hardesty & Bott
January 12, 2009

Breakout Prison Outreach dba California Youth Outreach
Statement of Financial Position
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 36,858	\$ 98,740
Accounts receivable	423,788	343,511
Prepaid expenses	<u>2,693</u>	<u>272</u>
Total current assets	463,339	442,523
Property and equipment, at cost	80,484	86,423
Accumulated depreciation	<u>(65,894)</u>	<u>(73,351)</u>
Property and equipment, net	14,590	13,072
Deposits	<u>14,638</u>	<u>15,397</u>
Total assets	<u><u>\$492,567</u></u>	<u><u>\$470,992</u></u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$90,277	\$119,732
Accrued liabilities	69,288	50,363
Note payable	35,000	35,000
Deferred revenue	<u>45,833</u>	<u>—</u>
Total current liabilities	240,398	205,095
Net assets		
Unrestricted	(46,292)	144,898
Temporarily restricted	<u>298,461</u>	<u>120,999</u>
Total net assets	<u>252,169</u>	<u>265,897</u>
Total liabilities and net assets	<u><u>\$492,567</u></u>	<u><u>\$470,992</u></u>

See accompanying notes.

Breakout Prison Outreach dba California Youth Outreach
Statement of Activities and Changes in Net Assets
Years ended June 30, 2008 and 2007

	Unrestricted 2008	Temporarily restricted 2008	Total 2008	2007
Support and revenue				
Contributions	\$ 25,257	\$ 23,900	\$ 49,157	\$ 211,435
Grants	137,050	733,032	870,082	579,141
Contract services	942,255	-	942,255	1,328,414
Interest	-	-	-	588
Rent	23,988	-	23,988	12,018
Miscellaneous	25,582	-	25,582	3,749
Net assets released from activity restrictions	579,470	(579,470)	-	-
Total support and revenue	1,733,602	177,462	1,911,064	2,135,345
Expenses				
Program services	1,634,995	-	1,634,995	1,596,516
Supporting services				
Management and general	273,517	-	273,517	317,681
Fundraising	16,280	-	16,280	15,912
Total expenses	1,924,792	-	1,924,792	1,930,109
Change in net assets	(191,190)	177,462	(13,728)	205,236
Net assets, beginning of year	144,898	120,999	265,897	60,661
Net assets, end of year	(\$46,292)	\$298,461	\$ 252,169	\$ 265,897

See accompanying notes.

Breakout Prison Outreach dba California Youth Outreach
Statement of Functional Expenses and Overhead Rate
Year ended June 30, 2008 with summary totals for the year ended June 30, 2007

	Program services	Supporting services		2008 Totals	2007 Totals only
		Management and general	Fund-raising		
Salaries	\$1,074,637	\$ 74,382	\$ -	\$1,149,019	\$1,087,097
Payroll taxes	97,361	6,574	-	103,935	99,057
Benefits	97,204	9,002	-	106,206	122,688
Housing allowance	9,000	-	-	9,000	20,250
Rent	123,653	43,798	-	167,451	142,959
Accounting and audit	-	93,123	-	93,123	79,904
Conferences and travel	83,296	18,792	80	102,168	81,771
Equipment rental and maintenance	13,984	1,293	-	15,277	23,157
Insurance	10,811	-	-	10,811	13,469
Printing and publications	4,848	402	33	5,283	2,717
Professional fees	15,840	7,275	6,000	29,115	108,224
Program	25,006	134	10,167	35,307	9,576
Supplies	48,031	4,730	-	52,761	59,791
Telephone and utilities	31,319	2,428	-	33,747	50,517
Interest	-	6,041	-	6,041	5,701
Depreciation	-	5,543	-	5,543	10,849
Miscellaneous	-	-	-	-	12,382
Bad debt expenses	5	-	-	5	-
Total expenses	\$1,634,995	\$273,517	\$16,280	\$1,924,792	\$1,930,109

Overhead rate calculation	Expenses	Rate
Management and general	\$273,517	14.21%
Program services	\$1,634,995	84.94%
Base	\$1,908,512	99.15%

See accompanying notes.

Breakout Prison Outreach dba California Youth Outreach
Statement of Cash Flows
Years ended June 30, 2008 and 2007

	2008	2007
Cash flow from operating activities		
Change in net assets	(\$13,728)	\$205,236
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	5,543	10,849
Changes in current assets and liabilities		
Accounts receivable	(80,277)	(169,486)
Prepaid expenses	(2,421)	13,861
Accounts payable	(29,455)	(5,934)
Accrued liabilities	18,925	715
	(101,413)	55,241
 Cash flows from investing activities		
Purchases of property and equipment	(7,061)	-
Change in deposits	759	(44)
	(6,302)	(44)
 Cash flows from financing activities		
Borrowings under notes payable	-	5,000
Principal payments on notes payable	-	(11,000)
Deferred revenue	45,833	-
	45,833	(6,000)
 Net change in cash and cash equivalents	(61,882)	49,197
 Cash and cash equivalents, beginning of year	98,740	49,543
 Cash and cash equivalents, end of year	\$ 36,858	\$98,740
 Supplemental cash flow information		
Cash paid for interest	\$ 6,041	\$ 5,701

See accompanying notes.

Breakout Prison Outreach
dba California Youth Outreach
Notes to Financial Statements
June 30, 2008

Note 1 – Basis of presentation

Basis of presentation

Breakout Prison Outreach is a non-profit organization incorporated on November 20, 1987, in California, doing business as California Youth Outreach (CYO).

For over 25 years, CYO has been providing support and giving hope to youth victimized by drug abuse, violence and gang lifestyles. CYO is dedicated to reaching out to gang-impacted youth, families and their communities with education services, intervention programs and resource opportunities that support a healthy and positive lifestyle. Through its evolution, CYO has developed the ability to provide unique and effective services to gang-impacted youth and their families.

Current service locations of CYO include the County and City areas of Santa Clara County–San Jose, Alameda County–Oakland, Monterey County–City of Salinas, and Fresno County–Fresno. CYO provides outreach and program services in homes, group homes, schools, the community and incarceration settings to better access and serve youth. Service components, which CYO provides within one or more of the four service locations, include:

Leadership Development Services

Provide youth with new opportunities for personal growth through exposure to new roles models, social and recreational alternatives, leadership projects and participation in life skills and support groups.

School–Based Services

Provide Student Assistance Services, Truancy Intervention Services, Conflict Resolution and Mediation and Student Gang Outreach Services in comprehensive and alternative school settings.

Youth Intervention/Case Management Services

Work with parents and their youth who are involved in the juvenile justice system and are exhibiting high-risk and gang-impacted behaviors. CYO provides case management, community re-entry services, gang outreach and diversion services and parent education and support services.

Breakout Prison Outreach
dba California Youth Outreach
Notes to Financial Statements
June 30, 2008

Note 1 – Basis of presentation (continued)

Incarcerated Youth Services

CYO reaches out to youth incarcerated in County and State youth correctional facilities, conducts life skills and gang awareness groups in incarceration settings, builds rapport with youth and establishes a helping relationship to better prepare them for re-entry into the community. These facilities include Juvenile Halls, Juvenile Ranches and State Youth Correctional Facilities (formerly CYA).

Training and Consultation Services

CYO designed Training and Consultation Services to build the capacity of parents, service providers and the general community to address the gang-related issues with their youth, in the family and community. Training areas include Parent Gang Awareness, Training staff that provide youth service and educators on how to deal with gang-involved youth and Training and Technical Assistance with a wide range of stakeholders developing plans to address their respective community issues.

Basis of accounting

CYO prepared the accompanying financial statements using the accrual basis of accounting. CYO records support and revenue when earned and expenses when incurring the related obligation.

The terms of certain grants and contracts may direct certain support for the activities of CYO to specific periods, services or capital additions. CYO classifies such support as temporarily restricted net assets herein unless CYO meets such grantor-imposed restrictions within the year of receipt. When CYO meets such grantor-imposed restrictions, CYO reclassifies temporarily restricted net assets to unrestricted herein.

Cash and cash equivalents

Cash and cash equivalents consist of amounts on hand and on deposit with a commercial bank, available within 90 days of demand.

Breakout Prison Outreach
dba California Youth Outreach
Notes to Financial Statements
June 30, 2008

Note 1 – Basis of presentation (continued)

Allowance for uncollectible accounts receivable

CYO uses the allowance method to account for uncollectible accounts receivable. Under this method, CYO reviews all receivables for any potential problems with collectability. If CYO feels that there may be a problem with collection, it provides an allowance for the receivable. When attempts to collect a specific receivable are unsuccessful, CYO considers the account uncollectable and writes it off against the allowance. As of June 30, 2008 and 2007, CYO concluded that an allowance for uncollectable accounts receivable was not necessary.

Property and equipment

Property and equipment consists of office and transportation equipment. CYO records purchased property and equipment at cost and donated property and equipment at fair value as of the date of receipt, when cost or fair value exceeds \$5,000. CYO records depreciation on office and transportation equipment using the straight-line method over estimated useful lives ranging from three to five years.

Revenues

During the years ended June 30, 2008 and 2007, support and revenue received from the following sources exceeded 10% of total support and revenue, reported for either year herein:

	<u>2008</u>	<u>2007</u>
City of San Jose	25%	21%
County of Santa Clara	12%	47%
City of Oakland	11%	-

A significant reduction in this level of support and revenue, if this were to occur, could have an adverse impact on the extent of the activities of CYO.

Donated services

CYO receives donated services (volunteers) benefiting certain program activities. Volunteers do not meet the requirements for recognition under accounting principles generally accepted in the United States (US-GAAP). Accordingly, CYO does not record the value of volunteers herein.

Breakout Prison Outreach
dba California Youth Outreach
Notes to Financial Statements
June 30, 2008

Note 1 – Basis of presentation (continued)

Expense allocations

CYO allocates expenses between program and supporting services herein based on estimates of employee activities and facility use, determined at least annually.

Income taxes

Governmental authorities advised CYO that it is exempt from federal income and state franchise taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the Revenue and Taxation Code of the State of California, respectively, and exempt from filing information returns as a church-sponsored organization. Governmental authorities classified CYO as a publicly supported organization as described in Section 509(a)(1) of the Internal Revenue Code. Accordingly, donors are entitled to the maximum charitable contribution deduction allowed by law. Management of CYO believes that its operation of CYO since receiving its exemptions and classification have not jeopardized its tax-exempt or church-sponsored status. Accordingly, CYO recorded no provision for income or excise taxes herein and filed no informational returns with the Internal Revenue Service or State of California.

Estimated fair value of financial instruments

Except as otherwise provided, management estimates that the aggregate net fair value of financial instruments recognized on the statement of financial position (including receivables, payables and accrued expenses) approximates their carrying value, as such financial instruments are short-term or bear fair market interest.

Use of estimates

CYO prepares its financial statements in accordance with US-GAAP. The preparation of financial statements in conformity with US-GAAP requires management to make estimates and assumptions that affect amounts and disclosures reported herein. Actual results could differ from those estimated.

Comparative totals

The column on the accompanying statement of functional expense and overhead rate captioned "2007 Totals only" represents 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 US-GAAP. Accordingly, users should read such information in conjunction with the financial

Breakout Prison Outreach
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Notes to Financial Statements
June 30, 2008

Note 1 – Basis of presentation (continued)

statements as of and for the year ended June 30, 2007, from which CYO derived the summarized information. CYO reclassified certain prior year information to conform to the current year presentation.

Note 2 – Accounts receivable

As of June 30, 2008 and 2007, accounts receivable total as follows:

	<u>2008</u>	<u>2007</u>
City of San Jose	\$25,401	\$22,105
County of Santa Clara	30,450	147,367
Fresno Unified School District	8,333	-
Oakland Unified School District	200,369	18,261
State of California	43,863	21,732
Starlight Adolescent Center	12,519	17,891
United Way Silicon Valley	72,650	112,875
YouthBuild USA	11,536	2,884
City of Salinas	18,667	-
Other	-	396
Total accounts receivable	<u>\$423,788</u>	<u>\$343,511</u>

Note 3 – Property and equipment

As of June 30, 2008 and 2007, property and equipment totals as follows:

	<u>2008</u>	<u>2007</u>
Office equipment	\$8,090	\$8,090
Transportation equipment	72,394	78,333
Total property and equipment, at cost	80,484	86,423
Accumulated depreciation	(65,894)	(73,351)
Property and equipment, net	<u>\$14,590</u>	<u>\$13,072</u>

Breakout Prison Outreach
dba California Youth Outreach
Notes to Financial Statements
June 30, 2008

Note 4 – Note payable

As of June 30, 2008 and 2007, the note payable is due on demand, payable to an individual, non-interest bearing and unsecured.

Note 5 – Temporarily restricted net assets

As of June 30, 2008, temporarily restricted net assets reconcile as follows:

	Balance 06/30/07	Additions	Released	Balance 06/30/08
United Way	\$120,999	\$ 23,900	\$ (85,999)	\$ 58,900
City of San Jose	-	75,790	(75,790)	-
City of San Jose - Bring Everyone's Strengths Together	-	432,242	(380,964)	51,278
City of Oakland - Meas Y Violence Prevention	-	225,000	(36,717)	188,283
Total	\$120,999	\$ 756,932	\$ (579,470)	\$298,461

Note 6 – Retirement plan

CYO allows its employees to defer from 3-5% of their eligible salary into a defined contribution plan under section 403(b) of the Internal Revenue Code . CYO matches deferrals of its full-time employees with at least 90 days of service dollar for dollar. Participants vest ratably in CYO contributions over five years. Participants may also vest immediately upon attainment of age 65, death, disability or plan termination. During the years ended June 30, 2008 and 2007, CYO made matching contributions totaling \$2,636 and \$5,723, respectively.

Breakout Prison Outreach
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Notes to Financial Statements
June 30, 2008

Note 7 – Commitments and contingencies

CYO leases office and recreational space in San José and Fresno under noncancelable operating leases that expire variously through August 31, 2010. CYO recorded rent expense, under the operating leases for the years ended June 30, 2008 and 2007, totaling \$167,451 and \$142,959, respectively. Future minimum payments remaining under the operating leases for years ended June 30, total as follows:

2009	\$24,310
2010	24,970
2011	<u>4,180</u>
Total future minimum payments	<u>\$53,460</u>

CYO subleases certain excess storage space under cancelable operating subleases. During the year ended June 30, 2008, CYO received rent revenue under the cancelable operating subleases totaling \$23,988.

CYO receives support that may be subject to audit or review by grantor agencies. Management believes that CYO complied with all aspects of the grant provisions and that disallowed costs, if any, would be insignificant to its financial position.