

**Breakout Prison Outreach  
dba California Youth Outreach**

Financial Statements

Year ended June 30, 2010

with

Report of Independent Auditors

**Breakout Prison Outreach  
dba California Youth Outreach**

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Report of Independent Auditors

CERTIFIED PUBLIC  
ACCOUNTANTS

DONALD WILSON  
ALAN MARKLE  
CHARLES STUCKEY  
DAVID HARDESTY  
DAVID BOTT  
DAVID BAILEY  
MICHAEL SMITH

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, 2010, 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. Our responsibility is to express an opinion on these financial statements, based on our audit. Management of Breakout Prison Outreach derived the prior-year summarized comparative information from the financial statements as of and for the year ended June 30, 2009, and, in our report dated January 11, 2010, 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 as of June 30, 2010, 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  
December 20, 2010

**Breakout Prison Outreach dba California Youth Outreach**  
**Statement of Financial Position**  
**June 30, 2010**

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 88,380	\$ 138,340
Accounts receivable	316,114	252,709
Prepaid expenses	<u>4,759</u>	<u>3,049</u>
Total current assets	409,253	394,098
Property and equipment, at cost	80,484	80,484
Accumulated depreciation	<u>(77,189)</u>	<u>(71,804)</u>
Property and equipment, net	3,295	8,680
Deposits	<u>5,600</u>	<u>15,568</u>
Total assets	<u><u>\$418,148</u></u>	<u><u>\$418,346</u></u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$95,970	\$88,322
Accrued liabilities	72,203	95,255
Bank line of credit	99,000	99,000
Note payable	8,010	-
Deferred revenue	<u>141,642</u>	<u>54,706</u>
Total current liabilities	416,825	337,283
Net assets		
Unrestricted	1,323	(73,016)
Temporarily restricted	<u>-</u>	<u>154,079</u>
Total net assets	<u>1,323</u>	<u>81,063</u>
Total liabilities and net assets	<u><u>\$418,148</u></u>	<u><u>\$418,346</u></u>

See accompanying notes.

**Breakout Prison Outreach dba California Youth Outreach**  
**Statement of Activities and Changes in Net Assets**  
**Year ended June 30, 2010**

	Unrestricted 2010	Temporarily restricted 2010	Total 2010	Total 2009
Support and revenue				
Contributions	\$ 39,024	\$ -	\$ 39,024	\$ 22,851
Grants	1,323,941	-	1,323,941	1,050,938
Contract services	1,128,812	-	1,128,812	1,258,640
Rent	-	-	-	26,500
Other	97	-	97	17,003
Net assets released from activity restrictions	154,079	(154,079)	-	-
<b>Total support and revenue</b>	<b>2,645,953</b>	<b>(154,079)</b>	<b>2,491,874</b>	<b>2,375,932</b>
Expenses				
Program services	2,257,108	-	2,257,108	2,170,333
Supporting services				
Management and general	314,317	-	314,317	347,041
Fundraising	189	-	189	29,664
<b>Total expenses</b>	<b>2,571,614</b>	<b>-</b>	<b>2,571,614</b>	<b>2,547,038</b>
Change in net assets	74,339	(154,079)	(79,740)	(171,106)
Net assets, beginning of year	(73,016)	154,079	81,063	252,169
Net assets, end of year	<u>\$ 1,323</u>	<u>\$ -</u>	<u>\$ 1,323</u>	<u>\$ 81,063</u>

See accompanying notes.

**Breakout Prison Outreach dba California Youth Outreach**  
**Statement of Functional Expenses and Overhead Rate**  
**Year ended June 30, 2010**

	Supporting services			2010 Totals	2009 Totals
	Program services	Management and general	Fund- raising		
Salaries	\$1,596,681	\$ 94,168	\$ -	\$1,690,849	\$1,585,003
Payroll taxes	163,464	6,061	-	169,525	164,031
Benefits	131,379	7,208	-	138,587	123,095
Housing allowance	-	9,000	-	9,000	9,000
Rent	80,274	14,946	-	95,220	191,215
Accounting and audit	1,025	91,534	-	92,559	94,143
Conferences and travel	80,755	40,842	-	121,597	116,293
Equipment rental and maintenance	12,285	1,118	-	13,403	15,159
Insurance	12,365	4,906	-	17,271	18,614
Printing and publications	5,009	172	-	5,181	6,433
Professional fees	57,980	12,707	-	70,687	54,347
Program	28,472	120	189	28,781	45,000
Supplies	49,156	10,733	-	59,889	67,973
Telephone and utilities	38,263	3,530	-	41,793	42,431
Interest	-	11,887	-	11,887	8,392
Depreciation	-	5,385	-	5,385	5,909
<b>Total expenses</b>	<b>\$2,257,108</b>	<b>\$314,317</b>	<b>\$189</b>	<b>\$2,571,614</b>	<b>\$2,547,038</b>
<b>Overhead rate calculation</b>		<b>Expenses</b>	<b>Rate</b>		
Management and general		<u>\$314,317</u>	12.22%		
Program services		<u>\$2,257,108</u>	87.77%		
Base		<u>\$2,571,425</u>	99.99%		

See accompanying notes.

**Breakout Prison Outreach dba California Youth Outreach**  
**Statement of Cash Flows**  
**Year ended June 30, 2010**

	<u>2010</u>	<u>2009</u>
Cash flow from operating activities		
Change in net assets	(\$79,740)	(\$171,106)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	5,385	5,909
Changes in current assets and liabilities		
Accounts receivable	(63,405)	171,079
Prepaid expenses	(1,710)	( 356)
Accounts payable	7,648	(1,955)
Accrued liabilities	(23,052)	25,968
Net cash provided (used) by operating activities	(154,874)	29,539
Cash flows from investing activities		
Change in deposits	9,968	(930)
Net cash provided (used) by investing activities	9,968	(930)
Cash flows from financing activities		
Borrowings under bank line of credit	-	99,000
Principal payments on notes payable	8,010	(35,000)
Deferred revenue	86,936	8,873
Net cash provided (used) by financing activities	94,946	72,873
Net change in cash and cash equivalents	(49,960)	101,482
Cash and cash equivalents, beginning of year	138,340	36,858
Cash and cash equivalents, end of year	<u>\$ 88,380</u>	<u>\$138,340</u>
Supplemental cash flow information		
Cash paid for interest	<u>\$ 11,887</u>	<u>\$ 8,392</u>

See accompanying notes.

**Breakout Prison Outreach**  
**dba California Youth Outreach**  
Notes to Financial Statements  
June 30, 2010

Note 1 - Basis of presentation

Breakout Prison Outreach is a non-profit organization incorporated on November 20, 1987 as a California public benefit corporation and does 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-City of San Jose, Alameda County-City of Oakland, Monterey County-City of Salinas, Sonoma County-City of Santa Rosa, and Fresno County-City of 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 five 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, 2010

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.

Note 2 - Summary of significant account policies

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 deposit with a bank and a financial institution in interest bearing accounts available within 90 days of demand. At various times during the year ended June 30, 2010, CYO had deposits exceeding federally insured amounts.

**Breakout Prison Outreach**  
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Notes to Financial Statements  
June 30, 2010

Note 2 - Summary of significant account policies (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, 2010, 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 year ended June 30, 2010, support and revenue received from the following sources exceeded 10% of total support and revenue.

City of San Jose	26%
County of Santa Clara	10%
City of Oakland	14%

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. Accordingly, CYO does not record the value of volunteers herein.

Expense allocations

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

**Breakout Prison Outreach**  
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June 30, 2010

Note 2 - Summary of significant account policies (continued)

Income taxes

Governmental authorities have advised CYO that it is exempt from federal income and state franchise taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701d of the Revenue and Taxation Code of the State of California. Governmental authorities also advised CYO that it is not a private foundation under Section 509(a) of the IRC. Donors are entitled to the maximum charitable contribution deduction allowed by law.

CYO follows accounting principles generally accepted in the United States relating to the accounting for uncertainty in income taxes. These principles had no impact on the CYO's liability for unrecognized tax benefits. CYO management believes that no activities of CYO jeopardize its exemption from income taxes or its classification as a "public charity," that no activities of CYO are subject to unrelated business income taxes and that the CYO has adequately addressed all tax positions and that there are no unrecorded tax liabilities. Tax years ended June 30, 2007 to 2010 are open for examination by the Internal Revenue Service and years 2006 to 2010 by the California Franchise Tax Board.

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.

Fair value

CYO uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets. Level 3 inputs consist of unobservable inputs that reflect internal judgments and have the lowest priority. CYO uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, CYO measures fair value using Level 1 inputs because

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Notes to Financial Statements  
June 30, 2010

Note 2 - Summary of significant account policies (continued)

Fair value (continued)

they generally provide the most reliable evidence of fair value. CYO only uses Level 3 inputs when Level 1 or Level 2 inputs are not available.

The following methods and assumptions were used to estimate the fair value of each financial instrument:

Cash and cash equivalents and accounts payable – the carrying amounts approximate fair value due to their short maturities.

Accounts receivable – the carrying amounts approximate fair value for accounts receivable due to their short maturities.

Use of estimates

CYO prepares its financial statements in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimated. The most significant estimates included in the accompanying financial statements are (a) the provisions for depreciation, which are based on the estimated useful lives of the underlying assets and (b) the provision for uncollectible contributions receivable, which are based on past payment history and the current economic environment.

Comparative totals

The columns in the accompanying statements of activities and changes in net assets and functional expense and overhead rate captioned "2009 Totals" 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 accounting principles generally accepted in the United States. Accordingly, users should read such information in conjunction with the financial statements as of and for the year ended June 30, 2009, from which CYO derived the summarized information. CYO reclassified certain prior year information to conform to the current year presentation.

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Notes to Financial Statements  
June 30, 2010

Note 2 - Summary of significant account policies (continued)

Subsequent events

CYO evaluated subsequent events for recognition and disclosure through December 20, 2010, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2010 that required recognition or disclosure in such financial statements.

Note 3 - Property and equipment

As of June 30, 2010 and 2009, property and equipment totals as follows:

	<u>2010</u>	<u>2009</u>
Office equipment	\$8,090	\$8,090
Transportation equipment	<u>72,394</u>	<u>72,394</u>
Total property and equipment, at cost	80,484	80,484
Accumulated depreciation	<u>(77,189)</u>	<u>(71,804)</u>
Property and equipment, net	<u><u>\$3,295</u></u>	<u><u>\$8,680</u></u>

Note 4 - Bank line of credit

At June 30, 2010, CYO had available an unsecured line of credit in the amount of \$100,000 from a commercial bank. Of the amount available, \$99,000 was outstanding at June 30, 2010. Interest on amounts borrowed is due monthly at the bank's index rate plus 1.35 percent, but not less than 5.00 percent (5.00 percent rate at June 30, 2010). The credit line is subject to annual renewal by the bank.

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June 30, 2010

Note 5 - Accounts receivable

As of June 30, 2010 and 2009, accounts receivable total as follows:

	<u>2010</u>	<u>2009</u>
City of Oakland	\$ 2,000	\$ 50,000
City of San Jose	32,603	32,711
City of Santa Rosa	12,539	14,988
County of Santa Clara	26,732	29,979
City of Oakland	77,720	-
Fresno Unified School District	4,583	-
Oakland Unified School District	13,274	9,821
Santa Clara Unified School District	4,226	4,227
State of California	48,530	20,163
Starlight Adolescent Center	8,749	9,385
United Way Silicon Valley	-	40,450
County of Monterey	44,069	23,619
City of Salinas	7,641	-
Community Capacity Building	11,250	-
Community Solutions	-	10,000
Other	22,198	7,366
Total accounts receivable	<u>\$ 316,114</u>	<u>\$ 252,709</u>

Note 6 - Temporarily restricted net assets

As of June 30, 2010, temporarily restricted net assets reconcile as follows:

	Balance 06/30/09	Additions	Released	Balance 06/30/10
California Wellness Foundation	\$ 154,079	\$ -	\$ (154,079)	\$ -
Total	<u>\$ 154,079</u>	<u>\$ -</u>	<u>\$ (154,079)</u>	<u>\$ -</u>

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Note 7 - 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 stopped matching contribution for eligible employees after September 30, 2009. Participants may also vest immediately upon attainment of age 65, death, disability or plan termination. During the year ended June 30, 2010, CYO made matching contributions totaling \$607.

Note 8 - 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 year ended June 30, 2010 totaling \$95,220.

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.