

**Breakout Prison Outreach
dba California Youth Outreach**

Financial Statements

Year ended June 30, 2011

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, 2011, 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, 2010, and, in our report dated December 20, 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, 2011, 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
November 3, 2011

Breakout Prison Outreach dba California Youth Outreach
Statement of Financial Position
June 30, 2011

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 34,206	\$ 88,380
Accounts receivable	357,454	316,114
Prepaid expenses	6,360	4,759
Total current assets	398,020	409,253
Property and equipment, at cost	80,484	80,484
Accumulated depreciation	(78,601)	(77,189)
Property and equipment, net	1,883	3,295
Deposit	5,600	5,600
Total assets	\$405,503	\$418,148
Liabilities and Net Assets		
Current liabilities		
Bank line of credit	\$ 96,834	\$ 99,000
Accounts payable	151,092	95,970
Accrued liabilities	33,904	72,203
Note payable	-	8,010
Deferred revenue	108,225	141,642
Total current liabilities	390,055	416,825
Net assets		
Unrestricted	15,448	1,323
Temporarily restricted	-	-
Total net assets	15,448	1,323
Total liabilities and net assets	\$405,503	\$418,148

See accompanying notes.

Breakout Prison Outreach dba California Youth Outreach
Statement of Activities and Changes in Net Assets
Year ended June 30, 2011

	Unrestricted 2011	Temporarily restricted 2011	Total 2011	Total 2010
Support and revenue				
Contributions	\$ 22,723	\$ -	\$ 22,723	\$ 39,024
Grants	1,469,801	-	1,469,801	1,323,941
Contract services	1,268,329	-	1,268,329	1,128,812
Other	166	-	166	97
Net assets released from program restrictions	-	-	-	-
 Total support and revenue	 2,761,019	 -	 2,761,019	 2,491,874
Expenses				
Programs supplies and expenses	2,455,590	-	2,455,590	2,257,108
Supporting services				
Management and general	291,304	-	291,304	314,317
Fundraising	-	-	-	189
 Total expenses	 2,746,894	 -	 2,746,894	 2,571,614
 Net assets, beginning of year	 1,323	 -	 1,323	 81,063
 Change in net assets	 14,125	 -	 14,125	 (79,740)
 Net assets, end of year	 <u>\$ 15,448</u>	 <u>\$ -</u>	 <u>\$ 15,448</u>	 <u>\$ 1,323</u>

See accompanying notes.

Breakout Prison Outreach dba California Youth Outreach
Statement of Functional Expenses and Overhead Rate
Year ended June 30, 2011

	Program services	Management and general	Fund- raising	2011 Totals	2010 Totals
Salaries	\$1,765,254	\$ 80,868	\$ -	\$1,846,122	\$1,690,849
Payroll taxes	184,015	8,188	-	192,203	169,525
Benefits	129,523	7,755	-	137,278	138,587
Housing allowance	-	9,000	-	9,000	9,000
Rent	73,287	18,944	-	92,231	95,220
Accounting and audit	6,000	80,560	-	86,560	92,559
Conferences and travel	74,738	47,000	-	121,738	121,597
Equipment rental and maintenance	10,680	2,183	-	12,863	13,403
Insurance	15,323	1,605	-	16,928	17,271
Printing and publications	4,706	139	-	4,845	5,181
Professional fees	93,582	5,668	-	99,250	70,687
Programs supplies and expenses	47,886	3,264	-	51,150	28,781
Office supplies	14,735	7,967	-	22,702	59,889
Telephone and utilities	33,187	5,759	-	38,946	41,793
Interest	-	10,750	-	10,750	11,887
Depreciation	-	1,412	-	1,412	5,385
Miscellaneous	2,674	242	-	2,916	-
Total expenses	\$2,455,590	\$291,304	\$ -	\$2,746,894	\$2,571,614

Overhead rate calculation	Expenses	Rate
Management and general	\$291,304	10.60%
Program services	\$2,455,590	89.40%
Base	\$2,746,894	100.00%

See accompanying notes.

Breakout Prison Outreach dba California Youth Outreach
Statement of Cash Flows
Year ended June 30, 2011

	<u>2011</u>	<u>2010</u>
Cash flow from operating activities		
Change in net assets	\$ 14,125	(\$79,740)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	1,412	5,385
Changes in current assets and liabilities		
Accounts receivable	(41,340)	(63,405)
Prepaid expenses	(1,601)	(1,710)
Accounts payable	55,122	7,648
Accrued liabilities	<u>(38,299)</u>	<u>(23,052)</u>
Net cash used by operating activities	(10,581)	(154,874)
Cash flows from investing activities		
Change in deposits	<u>—</u>	<u>9,968</u>
Net cash provided by investing activities	—	9,968
Cash flows from financing activities		
Payments on note payable	(8,010)	8,010
Borrowings under bank line of credit, net	(2,166)	—
Deferred revenue	<u>(33,417)</u>	<u>86,936</u>
Net cash provided (used) by financing activities	<u>(43,593)</u>	<u>94,946</u>
Net change in cash and cash equivalents	(54,174)	(49,960)
Cash and cash equivalents, beginning of year	<u>88,380</u>	<u>138,340</u>
Cash and cash equivalents, end of year	<u>\$ 34,206</u>	<u>\$ 88,380</u>
Supplemental cash flow information		
Cash paid for interest	<u>\$ 10,750</u>	<u>\$ 11,887</u>

See accompanying notes.

Breakout Prison Outreach
dba California Youth Outreach
Notes to Financial Statements
June 30, 2011

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, 2011**

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.

**Breakout Prison Outreach
dba California Youth Outreach
Notes to Financial Statements
June 30, 2011**

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, 2011, 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, 2011, support and revenue received from the following sources exceeded 10% of total support and revenue.

	<u>2011</u>	<u>2010</u>
City of San Jose	17%	26%
County of Santa Clara	19%	10%
City of Oakland	21%	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
dba California Youth Outreach
Notes to Financial Statements
June 30, 2011**

Note 2 - Summary of significant account policies (continued)

Income taxes

The Internal Revenue Service (IRS) and State of California Franchise Tax Board approved CYO as exempt from federal income tax under the Internal Revenue Code (IRC) and from California bank and corporation taxes under the California Revenue and Taxation Code. In addition, the IRS approved CYO to receive contributions that qualify for the charitable contribution deduction under the IRC and as a publicly supported organization as described in the IRC. Accordingly, donors are entitled to the maximum charitable contribution deduction allowed by law. Management of CYO concluded that no activities of CYO jeopardized its exemption from income taxes, its classification as a "public charity" or subjected CYO to taxes on unrelated business income. Consequently, CYO did not provide for any income taxes.

CYO follows accounting principles generally accepted in the United States relating to the accounting for uncertainty in income taxes. Adoption of these provisions did not have any impact on CYO's liability for unrecognized tax liabilities. Management believes that CYO has adequately addressed all tax positions and that there are no unrecorded tax liabilities. Tax years 2007 to 2011 are open for examination by the Internal Revenue Service and years 2006 to 2011 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

**Breakout Prison Outreach
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Notes to Financial Statements
June 30, 2011**

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 "2010 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, 2010, from which CYO derived the summarized information. CYO reclassified certain prior year information to conform to the current year presentation.

Breakout Prison Outreach
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Notes to Financial Statements
June 30, 2011

Note 2 - Summary of significant account policies (continued)

Subsequent events

CYO evaluated subsequent events for recognition and disclosure through November 3, 2011, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2011 that required recognition or disclosure in such financial statements.

Note 3 - Property and equipment

As of June 30, 2011 and 2010, property and equipment totals as follows:

	<u>2011</u>	<u>2010</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>(78,601)</u>	<u>(77,189)</u>
Property and equipment, net	<u>\$ 1,883</u>	<u>\$ 3,295</u>

Note 4 - Bank line of credit

As of May 3, 2010, the credit line of CYO had with a commercial bank matured. CYO is negotiating with the bank to extend the maturity date and change the payment terms. As of November 3, 2011, CYO and the commercial bank had not reached an agreement and the commercial bank had not exercised any collection options. CYO makes periodic principal and interest payments to pay down the credit line as cash flow allows. As of June 30, 2011, the outstanding principal balance on the credit line was \$96,834 accruing variable interest at the bank index rate plus 1.35 percent, but not less than 5.00 percent. As of June 30, 2011, the bank index rate was 3.25 percent. The credit line is unsecured.

Breakout Prison Outreach
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Notes to Financial Statements
June 30, 2011

Note 5 - Accounts receivable

As of June 30, 2011 and 2010, accounts receivable total as follows:

	<u>2011</u>	<u>2010</u>
City of Oakland	\$ 163,025	\$ 79,720
City of San Jose	30,350	32,603
City of Santa Rosa	18,169	12,539
County of Santa Clara	35,012	26,732
Fresno Unified School District	-	4,583
Oakland Unified School District	-	13,274
Santa Clara Unifed School District	-	4,226
State of California	72,151	48,530
Starlight Adolescent Center	4,897	8,749
County of Monterey	27,022	44,069
City of Salinas	-	7,641
Community Capacity Building	-	11,250
Other	6,828	22,198
Total accounts receivable	<u>\$ 357,454</u>	<u>\$ 316,114</u>

Note 6 - Temporarily restricted net assets

As of June 30, 2011, CYO does not have temporarily restricted net assets.

Note 7 - Retirement plan

Effective September 30, 2009, CYO terminated its 403(b) plan.

Breakout Prison Outreach
dba California Youth Outreach
Notes to Financial Statements
June 30, 2011

Note 8 - Commitments and contingencies

CYO leases office and recreational space in San Jose and Fresno under noncancelable operating leases that expire variously through June 30, 2013. Required future minimum lease payments during the years ending June 30 total as follows:

2012	\$ 9,600
2013	<u>4,800</u>
Total future minimum payments	<u>\$ 14,400</u>

CYO recorded rent expense under the operating leases for the year ended June 30, 2011 totaling \$92,231.

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.

**WILSON
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To the Board of Directors
Breakout Prison Outreach

We have audited the financial statements of Breakout Prison Outreach for the year ended June 30, 2011, and have issued our report thereon dated November 3, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Breakout Prison Outreach are described in Note 1 to the financial statements. No new accounting policies were adopted during the year.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 3, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Breakout Prison Outreach's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Breakout Prison Outreach's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

No Material Weaknesses

As part of our audit, we made a study and evaluation of Breakout Prison Outreach's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation, which included obtaining an understanding of the accounting system, was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements.

The management of Breakout Prison Outreach is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal

Breakout Prison Outreach

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accounting control procedures or the practices and procedures referred to above, errors or irregularities may nevertheless occur and not be detected. In addition, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with them may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control, taken as a whole. No condition that may be considered a material weakness came to our attention during our study and evaluation.

This information is intended solely for the use of the Board of Directors and management of the Breakout Prison Outreach and is not intended to be and should not be used by anyone other than these specified parties.



Wilson Markle Stuckey Hardesty & Bott

November 3, 2011