

**Breakout Prison Outreach
dba California Youth Outreach**

Financial Statements

Year ended June 30, 2013

with

Independent Auditors' Report

**WILSON
MARKLE
STUCKEY
HARDESTY
& BOTT LLP**

CERTIFIED PUBLIC
ACCOUNTANTS

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

Independent Auditors' Report

To the Board of Directors
Breakout Prison Outreach dba California Youth Outreach

We have audited the accompanying financial statements of California Youth Outreach (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Youth Outreach as of June 30, 2013, 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.

Report on Summarized Comparative Information

We have previously audited California Youth Outreach's June 30, 2012 financial statements and, in our report dated January 21, 2013, we expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Wilson Markle Stuckey Hardesty & Bott
Wilson Markle Stuckey Hardesty & Bott
Larkspur, CA

December 31, 2013

Breakout Prison Outreach dba California Youth Outreach
Statement of Financial Position
June 30, 2013

	<u>2013</u>	<u>2012</u>
Assets		
Current assets		
Cash	\$ 74,445	\$ 4,274
Grants and accounts receivable, net of allowance of \$4,796	312,783	208,077
Affiliate fees receivable, net of allowance of \$37,074	-	46,194
Prepaid expenses	<u>9,900</u>	<u>11,761</u>
Total current assets	397,128	270,306
Property and equipment, at cost		
Vehicles	72,394	72,394
Equipment	8,090	8,090
Accumulated depreciation	<u>(80,484)</u>	<u>(80,013)</u>
Property and equipment, net	-	471
Deposit	<u>3,150</u>	<u>3,150</u>
Total assets	<u>\$ 400,278</u>	<u>\$ 273,927</u>
Liabilities and net assets		
Current liabilities		
Line of credit	\$ 58,815	\$ 83,458
Accounts payable	95,203	66,147
Accrued liabilities	71,571	39,715
Deferred revenue	<u>129,373</u>	<u>66,521</u>
Total current liabilities	354,962	255,841
Net assets		
Unrestricted	<u>45,316</u>	<u>18,086</u>
Total net assets	<u>45,316</u>	<u>18,086</u>
Total liabilities and net assets	<u>\$ 400,278</u>	<u>\$ 273,927</u>

See accompanying notes.

Breakout Prison Outreach dba California Youth Outreach
Statements of Activities and Changes in Net Assets
Year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Total 2013	Totals only 2012
Revenue and support				
Grants and contract services	\$ 1,762,750	\$ -	\$ 1,762,750	\$ 1,438,946
Service fees	15,846	-	15,846	6,844
Affiliate reimbursement income	17,767	-	17,767	73,554
Contributions	26,819	-	26,819	13,902
Fundraising income	2,924	-	2,924	1,885
Interest income	174	-	174	100
In-kind revenue	75,932	-	75,932	-
Net assets released from program restrictions	-	-	-	-
Total revenue and support	1,902,212	-	1,902,212	1,535,231
Expenses				
Programs expenses	1,597,510	-	1,597,510	1,299,550
Supporting services				
Management and general	249,041	-	249,041	215,062
Fundraising	28,431	-	28,431	17,981
Total expenses	1,874,982	-	1,874,982	1,532,593
Change in net assets	27,230	-	27,230	2,638
Net assets, beginning of year	18,086	-	18,086	15,448
Net assets, end of year	<u>\$ 45,316</u>	<u>\$ -</u>	<u>\$ 45,316</u>	<u>\$ 18,086</u>

See accompanying notes.

Breakout Prison Outreach dba California Youth Outreach
Statements of Functional Expenses and Overhead Rate
Year ended June 30, 2013

	Supporting services			2013 Totals	2012 Totals only
	Program expenses	Management and general	Fund- raising		
Salaries	\$1,083,992	\$ 57,736	\$ 1,200	\$1,142,928	\$1,036,550
Payroll taxes	102,951	5,629	90	108,670	115,713
Benefits	105,358	6,962	-	112,320	106,238
Conferences and travel	49,114	22,661	25,277	97,052	70,567
Professional fees	80,000	30,850	-	110,850	4,941
Rent	77,257	11,838	-	89,095	56,629
Accounting and audit	-	33,200	-	33,200	36,468
Programs supplies and expenses	48,054	1,078	1,325	50,457	22,468
Telephone and utilities	19,828	4,767	-	24,595	21,638
Office supplies	6,946	5,631	42	12,619	10,006
Insurance	11,597	3,744	-	15,341	11,570
Equipment rental and maintenance	9,211	671	497	10,379	11,839
Interest	-	12,023	-	12,023	13,216
Housing allowance	-	9,000	-	9,000	9,000
Printing and publications	2,635	326	-	2,961	630
Miscellaneous	567	42,454	-	43,021	3,708
Depreciation	-	471	-	471	1,412
Total expenses	\$1,597,510	\$ 249,041	\$ 28,431	\$1,874,982	\$1,532,593

Overhead rate calculation	Expenses	Rate
Management and general	\$ 249,041	13.28%
Program services	<u>\$1,597,510</u>	<u>85.20%</u>
 Base	 <u>\$1,846,551</u>	 <u>98.48%</u>

See accompanying notes.

Breakout Prison Outreach dba California Youth Outreach
Statements of Cash Flows
Year ended June 30, 2013

	<u>2013</u>	<u>2012</u>
Cash flow from operating activities		
Change in net assets	\$ 27,230	\$ 2,638
Adjustments to reconcile change in net assets to net cash provided (used by) operating activities		
Depreciation	471	1,412
Changes in current assets and liabilities		
Grants and accounts receivable	(104,706)	149,377
Affiliate fees receivable	46,194	(46,194)
Prepaid expenses	1,861	(5,401)
Accounts payable	29,056	(84,945)
Accrued liabilities	31,856	5,811
Deferred revenue	<u>62,852</u>	<u>(41,704)</u>
Net cash provided (used) by operating activities	94,814	(19,006)
Cash flows from investing activities		
Change in deposits	<u>-</u>	<u>2,450</u>
Net cash provided by investing activities	-	2,450
Cash flows to financing activities		
Borrowings under bank line of credit, net	<u>(24,643)</u>	<u>(13,376)</u>
Net cash used by financing activities	<u>(24,643)</u>	<u>(13,376)</u>
Increase (decrease) in cash	70,171	(29,932)
Cash, beginning of year	<u>4,274</u>	<u>34,206</u>
Cash, end of year	<u>\$ 74,445</u>	<u>\$ 4,274</u>
Cash paid for interest	<u>\$ 12,023</u>	<u>\$ 13,216</u>

See accompanying notes.

Breakout Prison Outreach dba California Youth Outreach
Notes to the Financial Statements
June 30, 2013

Note 1 - Basis of presentation

Breakout Prison Outreach is a non-profit organization that 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.

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).

Breakout Prison Outreach dba California Youth Outreach
Notes to the Financial Statements
June 30, 2013

Note 1 - Basis of presentation (continued)

Training and Consultation Services

CYO has 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.

Note 2 - Summary of significant account policies

Basis of accounting

The accompanying financial statements are prepared on the accrual basis of accounting. CYO records revenues when earned and expenses when incurring the related obligation. CYO recognizes revenues from reimbursable cost contracts when incurring the related expenses.

Cash

Cash consists of amounts on deposit with a commercial bank, available on demand. At June 30, 2013, and at various times during the year then ended, CYO may have had deposits exceeding federally insured amounts. For purposes of the statement of cash flows, CYO considers investments with initial maturities of three months or less to be cash equivalents.

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, 2013 CYO identified \$42,041 of accounts receivable which required an allowance. At June 30, 2012, 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.

Deferred revenue

Deferred revenue consists of amounts advanced or drawn down under fee-for service contracts that exceed revenue earned.

Breakout Prison Outreach dba California Youth Outreach
Notes to the Financial Statements
June 30, 2013

Note 2 - Summary of significant account policies (continued)

Net Assets

Certain support for the programs of CYO may be directed by the donors to specific periods or programs. CYO classifies such amounts as temporarily restricted revenue and net assets in the accompanying financial statements. When donor restrictions expire or are otherwise met, CYO reclassifies temporarily restricted net assets as unrestricted net assets.

Allocation of functional expenses

The costs of providing CYO's various programs and other activities have been summarized on a functional basis in the statement of changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services based on estimates of time and usage.

Income taxes

CYO claims exemption from income taxes assessed by the Internal Revenue Service (IRS) and the state of California Franchise Tax Board based on its status as a church. Accordingly, CYO may receive contributions that qualify for the charitable contribution deduction under the Internal Revenue Code. 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. Consequently, CYO did not provide for any income taxes. Furthermore, because of its status as a religious organization, CYO is exempt from the requirement to file annual information returns with either the federal government or the state.

Use of estimates

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 the amounts reported in the financial statements and accompanying notes. Although these estimates are based upon management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Comparative totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the audited financial statements for the year ended June 30, 2012, from which the summarized information was derived.

Breakout Prison Outreach dba California Youth Outreach
Notes to the Financial Statements
June 30, 2013

Note 2 - Summary of significant account policies (continued)

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 one inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level two inputs consist of observable inputs other than quoted prices for identical assets. Level three 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 one inputs because they generally provide the most reliable evidence of fair value.

CYO only uses Level three inputs when Level one or Level two inputs are not available.

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

Cash, accounts receivable, accounts payable and current liabilities – the carrying amounts approximate fair value due to their short maturities.

Subsequent events

CYO evaluated subsequent events for recognition and disclosure through December 30, 2013 the date that these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2013 that required recognition or disclosure in such financial statements.

Note 3 - Grants and accounts receivable

As of June 30, 2013 and 2012, accounts receivable total as follows:

	<u>2013</u>	<u>2012</u>
City of Salinas	\$ 6,426	\$ -
City of San Jose	66,519	88,000
City of Santa Rosa	28,622	-
County of Santa Clara	41,885	31,575
Santa Clara County Mental Health Department	46,727	14,160
Sonoma County Shariffs Office	21,403	-
State of California	84,163	61,941
Starlight Adolescent Center	10,227	10,277
Star View Children & Family Services	6,293	-
Gilroy Unified School District	-	2,124
Other	518	-
Total accounts receivable	<u>\$312,783</u>	<u>\$208,077</u>

Breakout Prison Outreach dba California Youth Outreach
Notes to the Financial Statements
June 30, 2013

Note 4 - Affiliate and affiliate fees receivable

In July of fiscal year 2011, one branch of the organization's operations decided to spin off from the main group and formed its own corporation, Oakland CYO, Inc. The two organizations had previously agreed to share resources that are provided by CYO such as payroll, data reporting and administration. CYO was under the impression that Oakland CYO, Inc. had agreed to reimburse CYO for the shared services and would be billed quarterly for administration and data services. Additionally, the management of CYO believed that Oakland CYO, Inc. would provide a 3% affiliate fee based on Oakland CYO, Inc.'s gross annual income. Oakland CYO disputed the affiliate fees which totaled \$37,074 as of June 30, 2013. In February of 2013, it was determined by CYO management that CYO Oakland, Inc.'s management was moving in a direction that was counter to CYO's mission. It was decided at that time, that all ties would be severed between CYO and Oakland CYO, Inc., and the affiliate fees receivable of \$37,074 and accounts receivable of \$4,967 (relating to shared services) due from Oakland CYO, Inc. would be written off. Prior to severing ties with Oakland CYO, Inc., the amounts billed for shared services totaled \$17,767 at June 30, 2013. For the period ending June 30, 2012 the amounts billed was \$73,544.

Note 5 - Line of credit

At May 3, 2010, the credit line of CYO had with a commercial bank matured. During the current fiscal year, CYO re-negotiated the line of credit with the commercial bank and the new final payment due date is March 25, 2015. CYO makes periodic principal and interest payments to pay down the credit line as cash flow allows. As of June 30, 2013, the outstanding principal balance on the credit line was \$58,815 (2012 - \$83,458).

The principal balance is accruing variable interest at the bank index rate plus 1.35 percent, but not less than 6.00 percent. As of June 30, 2013, the bank index rate was 3.25 percent. The credit line is unsecured.

Note 6 - Related party

As of October 1, 2012, the organization entered into a lease contract with San Jose Conservation Corps & Charter School for its offices in San Jose. CYO also provides services to the same organization. During the year ended June 30, 2013, CYO paid rents to the San Jose Conservation Corps & Charter school in the amount of \$37,800.

Note 7 - Concentrations

During the year ended June 30, the organization received revenue and support from the following sources, which exceeded 10% of total revenue, and support.

Breakout Prison Outreach dba California Youth Outreach
Notes to the Financial Statements
June 30, 2013

Note 7 – Concentrations (continued)

	<u>2013</u>	<u>2012</u>
City of San Jose	21%	22%
County of Santa Clara and related school districts	36%	34%
City of Santa Rosa	11%	-
State of California	10%	15%

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.

Note 8 - Temporarily restricted net assets

As of June 30, 2013 and 2012, CYO did not have temporarily restricted net assets.

Note 9 – In-kind revenue

For the year ended June 30, 2013, CYO received in-kind contributions of \$75,932. \$35,932 related to office space provided rent free by the Monterey Probation Department and \$40,000 related to vocational training services provided by Rancho Cielo Youth Campus.

Note 10 - Risks and uncertainties

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.