

**Breakout Prison Outreach  
dba California Youth Outreach**

Financial Statements

Year ended June 30, 2014

with

Independent Auditors' Report

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

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, 2014, 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, 2014, 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, 2013 financial statements and, in our report dated December 31, 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, 2013, 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 22, 2014

**Breakout Prison Outreach dba California Youth Outreach**  
**Statement of Financial Position**  
**June 30, 2014**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current assets		
Cash	\$ 89,997	\$ 74,445
Grants and accounts receivable	343,397	312,783
Prepaid expenses	<u>5,224</u>	<u>9,900</u>
Total current assets	438,618	397,128
Property and equipment, at cost		
Vehicles	72,394	72,394
Equipment	8,090	8,090
Accumulated depreciation	<u>(80,484)</u>	<u>(80,484)</u>
Property and equipment, net	-	-
Deposit	<u>4,828</u>	<u>3,150</u>
<b>Total assets</b>	<u><u>\$ 443,446</u></u>	<u><u>\$ 400,278</u></u>
<b>Liabilities and net assets</b>		
Current liabilities		
Line of credit	\$ 31,667	\$ 58,815
Accounts payable	55,807	95,203
Accrued liabilities	64,921	71,571
Deferred revenue	<u>103,406</u>	<u>129,373</u>
Total current liabilities	255,801	354,962
Net assets		
Unrestricted		
Undesignated	176,398	45,316
Board designated	<u>9,000</u>	<u>-</u>
Total unrestricted net assets	185,398	45,316
Temporarily restricted	<u>2,247</u>	<u>-</u>
Total net assets	<u>187,645</u>	<u>45,316</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 443,446</u></u>	<u><u>\$ 400,278</u></u>

See accompanying notes.

**Breakout Prison Outreach dba California Youth Outreach**  
**Statements of Activities and Changes in Net Assets**  
**Year ended June 30, 2014**

	Unrestricted	Temporarily Restricted	Total 2014	Totals only 2013
<b>Revenue and support</b>				
Grants and contract services	\$ 2,095,674	\$ -	\$2,095,674	\$ 1,762,750
Service fees	1,204	-	1,204	15,846
Affiliate reimbursement income	-	-	-	17,767
Contributions	16,348	4,000	20,348	26,819
Fundraising income	-	-	-	2,924
Interest income	2,545	-	2,545	174
In-kind revenue	64,963	-	64,963	75,932
Gain on disposal of equipment	293	-	293	-
Net assets released from program restrictions	1,753	(1,753)	-	-
<b>Total revenue and support</b>	<b>2,182,780</b>	<b>2,247</b>	<b>2,185,027</b>	<b>1,902,212</b>
<b>Expenses</b>				
Programs expenses	1,792,390	-	1,792,390	1,597,510
Supporting services				
Management and general	249,477	-	249,477	249,041
Fundraising	831	-	831	28,431
<b>Total expenses</b>	<b>2,042,698</b>	<b>-</b>	<b>2,042,698</b>	<b>1,874,982</b>
<b>Change in net assets</b>	<b>140,082</b>	<b>2,247</b>	<b>142,329</b>	<b>27,230</b>
<b>Net assets, beginning of year</b>	<b>45,316</b>	<b>-</b>	<b>45,316</b>	<b>18,086</b>
<b>Net assets, end of year</b>	<b>\$ 185,398</b>	<b>\$ 2,247</b>	<b>\$ 187,645</b>	<b>\$ 45,316</b>

See accompanying notes.

**Breakout Prison Outreach dba California Youth Outreach**  
**Statements of Functional Expenses**  
Year ended June 30, 2014

	Program expenses	Supporting services		2014 Totals	2013 Totals only
		Management and general	Fund-raising		
Salaries	\$1,175,853	\$ 108,302	\$ 450	\$1,284,605	\$ 1,142,928
Payroll taxes	123,486	3,224	36	126,746	108,670
Benefits	116,489	14,091	-	130,580	112,320
Total personnel	<u>1,415,828</u>	<u>125,617</u>	<u>486</u>	<u>1,541,931</u>	<u>1,363,918</u>
Conferences and travel	64,123	13,833	345	78,301	97,052
Professional fees	16,000	30,700	-	46,700	70,850
Rent	46,634	12,428	-	59,062	53,163
Accounting and audit	-	42,448	-	42,448	33,200
Programs supplies and expenses	123,951	120	-	124,071	59,457
Telephone and utilities	26,050	6,568	-	32,618	24,595
Office supplies	10,080	3,854	-	13,934	12,619
Insurance	14,058	1,437	-	15,495	15,341
Equipment rental and maintenance	7,605	1,767	-	9,372	10,379
Interest	-	10,217	-	10,217	12,023
Printing and publications	3,058	33	-	3,091	2,961
Miscellaneous	40	455	-	495	43,021
In-kind	64,963	-	-	64,963	75,932
Depreciation	-	-	-	-	471
Total expenses	<u>\$1,792,390</u>	<u>\$ 249,477</u>	<u>\$ 831</u>	<u>\$2,042,698</u>	<u>\$ 1,874,982</u>

Overhead rate calculation	Expenses	Rate
Management and general	\$ 249,477	12.21%
Program services	1,792,390	87.75%
Base	<u>\$2,041,867</u>	<u>99.96%</u>

See accompanying notes.

**Breakout Prison Outreach dba California Youth Outreach**  
**Statements of Cash Flows**  
**Year ended June 30, 2014**

	<u>2014</u>	<u>2013</u>
Cash flow from operating activities		
Change in net assets	\$ 142,329	\$ 27,230
Adjustments to reconcile change in net assets to net cash provided (used by) operating activities		
Depreciation	-	471
Gain on disposal of fixed asset	(293)	
Changes in current assets and liabilities		
Grants and accounts receivable	(30,614)	(104,706)
Affiliate fees receivable	-	46,194
Prepaid expenses	4,676	1,861
Accounts payable	(39,396)	29,056
Accrued liabilities	(6,650)	31,856
Deferred revenue	(25,967)	62,852
Net cash provided by operating activities	<u>44,085</u>	<u>94,814</u>
Cash flows from investing activities		
Change in deposits	(1,678)	-
Proceeds from disposal of fixed asset	293	-
Net cash used by investing activities	<u>(1,385)</u>	<u>-</u>
Cash flows to financing activities		
Principal payments towards line of credit	(27,148)	(24,643)
Net cash used by financing activities	<u>(27,148)</u>	<u>(24,643)</u>
Increase in cash	15,552	70,171
Cash, beginning of year	<u>74,445</u>	<u>4,274</u>
Cash, end of year	<u>\$ 89,997</u>	<u>\$ 74,445</u>
Cash paid for interest	<u>\$ 10,217</u>	<u>\$ 12,023</u>

See accompanying notes.

**Breakout Prison Outreach dba California Youth Outreach**  
Notes to the Financial Statements  
June 30, 2014

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, 2014, 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 uncollectible and writes it off against the allowance. As of June 30, 2014 CYO did not identify any accounts receivable which required an allowance.

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, 2014**

**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, 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, 2014**

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, 2013, from which the summarized information was derived.

**Breakout Prison Outreach dba California Youth Outreach**  
**Notes to the Financial Statements**  
**June 30, 2014**

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 input consists 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 19, 2014 the date that these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2014 that required recognition or disclosure in such financial statements.

Note 3 - Grants and accounts receivable

As of June 30, 2014 and 2013, accounts receivable total as follows:

	<u>2014</u>	<u>2013</u>
City of Salinas	\$ 46,500	\$ 6,426
City of San Jose	231,583	66,519
City of Santa Rosa	64,864	28,622
County of Santa Clara	-	41,885
Santa Clara County Mental Health Department	-	46,727
Sonoma County Shariffs Office	-	21,403
State of California	-	84,163
Starlight Adolescent Center	-	10,227
Star View Children & Family Services	-	6,293
Other	450	518
Total accounts receivable	<u>\$ 343,397</u>	<u>\$312,783</u>

**Breakout Prison Outreach dba California Youth Outreach**  
**Notes to the Financial Statements**  
**June 30, 2014**

**Note 4 - Line of credit**

At May 3, 2010, the credit line of CYO had with a commercial bank matured. During the prior fiscal year, CYO re-negotiated the line of credit 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 flows allow. As of June 30, 2014, the outstanding principal balance on the credit line was \$31,667 (2013 - \$58,815).

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, 2014, the bank index rate was 3.25 percent. The credit line is unsecured.

**Note 5 – Board designated net assets**

As of June 30, 2014, the CYO board of directors has set aside \$9,000 of unrestricted net assets for the purposes of a housing allowance for the CYO Pastor.

**Note 6 – Temporarily restricted net assets**

As of June 30, 2014, CYO had \$2,247 in temporarily restricted net assets. There were no temporarily restricted net assets at June 30, 2013.

**Note 7 - Related party**

The organization leases office space from the San Jose Conservation Corps & Charter School. CYO also provides services to the same organization. During the year ended June 30, 2014, CYO paid rents to the San Jose Conservation Corps & Charter School in the amount of \$37,800 (2013 - \$37,800).

Several members of the executive director's family work within the organization. This includes the operations manager, the accounts payable manager, and the program data reporting manager. The total amount of payroll expenses attributable to these related persons is approximately \$138,157.

The organization reimbursed the executive director \$3,038 for the use of personal funds advanced for set-up of a now defunct group home for troubled youth that was approved by the board.

**Breakout Prison Outreach dba California Youth Outreach**  
Notes to the Financial Statements  
June 30, 2014

Note 8 - Concentrations

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

	<u>2014</u>	<u>2013</u>
City of San Jose	23%	21%
County of Santa Clara and related school districts	36%	36%
City of Santa Rosa	10%	11%
State of California	10%	10%

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 9 – In-kind revenue

For the year ended June 30, 2014, CYO received in-kind contributions of \$64,963 (2013 – \$75,932). \$35,932 related to office space provided rent free by the Monterey Probation Department.

Note 10 – Interim executive director

At the end of the prior fiscal year, the executive director suffered a debilitating medical condition which required the executive director to go on state disability. This disability lasted for the entire current fiscal year and the operations manager stepped in as interim executive director.

During the executive director's period of disability, the board of directors approved the gifting of vacation and medical insurance to the executive director in order to supplement state disability payments. The total dollar amount of vacation hours gifted was \$20,125 and medical and fringe benefit charges amounted to \$14,183 over the same period of time.

Note 11 - 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.

**Breakout Prison Outreach dba California Youth Outreach**  
Notes to the Financial Statements  
June 30, 2014

Note 11 - Risks and uncertainties (continued)

CYO has an ongoing dispute with a formerly affiliated organization regarding administrative fees owed to CYO in the amount of \$37,074. An allowance for the receivable was recorded in the prior fiscal year and the balance was written off as of June 30, 2014.