

BREAK THE CYCLE

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

CONTENTS

| | <u>Page</u> |
|---|-------------|
| FINANCIAL STATEMENTS | |
| Independent auditor's report | 1 - 2 |
| Statement of financial position | 3 |
| Statement of activities and changes in net assets. | 4 |
| Statement of functional expenses | 5 |
| Statement of cash flows | 6 |
| Notes to financial statements | 7 – 13 |
| SUPPLEMENTARY INFORMATION | |
| Schedule of federal awards. | 14 |
| Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i> | 15 - 16 |
| Report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133 | 17 – 18 |
| Schedule of findings and questioned costs | 19 |

Independent Auditor's Report

To the Board of Directors of
Break the Cycle
Los Angeles, California

We have audited the accompanying statement of financial position for Break the Cycle (a not-for-profit corporation) as of December 31, 2011, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Break the Cycle's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 financial statements and, in our report dated September 20, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of 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 the 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 Break the Cycle as of December 31, 2011, and the changes in its net assets and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures for federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Board of Directors
Break the Cycle
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2012 on our consideration of Break the Cycle's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

The Ozurovich Group, Inc.

The Ozurovich Group, Inc.

Los Angeles, California
August 23, 2012

**BREAK THE CYCLE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010**

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|-------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 70,723 | \$ 12,872 |
| Accounts receivable | 20,314 | 13,985 |
| Grants and contributions receivable | 173,892 | 9,585 |
| Contracts receivable | 30,479 | 7,566 |
| Mortgage notes receivable - current | - | 160,828 |
| Mortgage note interest receivable | - | 58,596 |
| Prepaid expenses | 9,221 | 13,610 |
| | <hr/> | <hr/> |
| Total current assets | 304,629 | 277,042 |
| Property and equipment – net | 11,936 | 5,756 |
| Deposits | 10,031 | 10,153 |
| | <hr/> | <hr/> |
| TOTAL ASSETS | <u>\$ 326,596</u> | <u>\$ 292,951</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$ 4,246 | \$ 33,960 |
| Loans payable – related parties | - | 78,230 |
| Interest payable | - | 1,770 |
| Accrued vacation and payroll | 21,943 | 12,679 |
| | <hr/> | <hr/> |
| TOTAL LIABILITIES | 26,189 | 126,639 |
| NET ASSETS | | |
| Unrestricted net assets | 126,515 | 154,312 |
| Temporarily restricted net assets | 173,892 | 12,000 |
| | <hr/> | <hr/> |
| TOTAL NET ASSETS | 300,407 | 166,312 |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 326,596</u> | <u>\$ 292,951</u> |

See independent auditor's report and accompanying notes.

**BREAK THE CYCLE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

| | 2011 | | | 2010 |
|--|-------------------|---------------------------|-------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Total | Total |
| REVENUE | | | | |
| Government contracts | \$ 711,911 | \$ - | \$ 711,911 | \$ 457,252 |
| Program service fees | 29,720 | - | 29,720 | 16,418 |
| Other income | 50,782 | - | 50,782 | 34,277 |
| Interest and dividends | - | - | - | 2,417 |
| Total Revenue | <u>792,413</u> | <u>-</u> | <u>792,413</u> | <u>510,364</u> |
| SUPPORT | | | | |
| Individual contributions | 37,140 | 8,072 | 45,212 | 66,812 |
| Corporate and business | 41,119 | 160,500 | 201,619 | 28,057 |
| Foundations and trusts | 13,100 | 186,298 | 199,398 | 58,436 |
| Non-profit organizations | 10,455 | - | 10,455 | 2,750 |
| Special events | 136,279 | - | 136,279 | 173,192 |
| Less special event direct expenses | (108,171) | - | (108,171) | (139,942) |
| Total Support | <u>129,922</u> | <u>354,870</u> | <u>484,792</u> | <u>189,305</u> |
| Total revenue and support | 922,335 | 354,870 | 1,277,205 | 699,669 |
| Donated facilities and services | 47,700 | - | 47,700 | 49,035 |
| Net Assets Released from Restrictions | | | | |
| Restrictions satisfied | 192,978 | (192,978) | - | - |
| TOTAL REVENUE AND SUPPORT | <u>1,163,013</u> | <u>161,892</u> | <u>1,324,905</u> | <u>748,704</u> |
| EXPENSES | | | | |
| Program Services | | | | |
| Education and outreach | 389,920 | - | 389,920 | 454,191 |
| Systemic change | 317,473 | - | 317,473 | 284,935 |
| Intervention | 214,278 | - | 214,278 | 218,347 |
| Helpline Ptsp | 107,250 | - | 107,250 | - |
| Total Program Services | <u>1,028,921</u> | <u>-</u> | <u>1,028,921</u> | <u>957,473</u> |
| Supporting Services | | | | |
| Supporting services | 79,602 | - | 79,602 | 73,418 |
| Fund raising | 82,287 | - | 82,287 | 97,125 |
| Total Supporting Services | <u>161,889</u> | <u>-</u> | <u>161,889</u> | <u>170,543</u> |
| TOTAL EXPENSES | <u>1,190,810</u> | <u>-</u> | <u>1,190,810</u> | <u>1,128,016</u> |
| CHANGE IN NET ASSETS | (27,797) | 161,892 | 134,095 | (379,312) |
| NET ASSETS, Beginning of the year | 154,312 | 12,000 | 166,312 | 545,624 |
| NET ASSETS, End of the year | <u>\$ 126,515</u> | <u>\$ 173,892</u> | <u>\$ 300,407</u> | <u>\$ 166,312</u> |

See independent auditor's report and accompanying notes.

**BREAK THE CYCLE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

| | 2011 | | | | | 2010 | | | | |
|---|------------------------|-------------------|-------------------|-------------------|---------------------|---------------------|------------------|-------------------|---------------------|---------------------|
| | Program Services | | | | Total | Supporting Services | | Total | Total | |
| | Education and Outreach | Systemic Change | Intervention | Helpline Ptsp | | Supporting Services | Fund Raising | | | |
| Salaries, payroll taxes and employee benefits | \$ 253,827 | \$ 173,742 | \$ 144,874 | \$ 72,884 | \$ 644,927 | \$ 52,808 | \$ 57,869 | \$ 110,477 | \$ 755,404 | \$ 730,883 |
| Product costs | 1,448 | - | - | - | 1,448 | - | - | - | 1,448 | - |
| Rent | 28,030 | 49,648 | 27,148 | 5,138 | 109,964 | 2,910 | 4,731 | 7,641 | 117,605 | 113,778 |
| Printing and publication costs | 23,084 | 5,798 | - | 7,750 | 36,632 | - | 5,371 | 5,371 | 42,003 | 21,849 |
| Advertising and marketing | 3,258 | - | - | 4,965 | 8,223 | - | - | - | 8,223 | 28,743 |
| Subgrants | 1,000 | 13,733 | 2,700 | - | 17,433 | - | - | - | 17,433 | 31,828 |
| Accounting | 2,395 | 809 | 3,487 | 388 | 7,039 | 200 | 282 | 492 | 7,531 | 7,500 |
| Travel | 6,270 | 11,728 | 2,445 | 4,205 | 24,648 | 35 | 1,243 | 1,278 | 25,926 | 17,393 |
| Insurance | 4,976 | 2,199 | 7,581 | 1,202 | 15,958 | 2,544 | 1,022 | 3,566 | 19,524 | 21,002 |
| PEO administrative fee | 8,434 | 4,554 | 3,920 | 2,282 | 19,190 | 1,362 | 1,887 | 3,249 | 22,439 | 22,826 |
| Supplies and materials | 8,898 | 2,676 | 1,772 | 9 | 13,355 | (159) | 435 | 276 | 13,631 | 18,822 |
| Consulting | 16,301 | 7,795 | 500 | - | 24,596 | (450) | 165 | (285) | 24,311 | 28,759 |
| Conferences | 1,494 | 6,114 | - | - | 7,608 | - | - | - | 7,608 | 2,352 |
| Dues, memberships and subscriptions | 701 | 268 | 9,436 | - | 10,405 | 500 | 1,368 | 1,868 | 12,273 | 12,277 |
| Utilities | 2,218 | 10,534 | 2,681 | 325 | 15,758 | 186 | 273 | 459 | 16,217 | 17,408 |
| Information technology and support | 11,936 | 17,007 | 288 | 4,130 | 33,361 | 564 | 142 | 706 | 34,067 | 18,732 |
| Equipment rental | 2,362 | 2,632 | 2,360 | 625 | 8,179 | 311 | 517 | 828 | 9,007 | 7,475 |
| Meals and entertainment | 749 | 1,223 | 87 | 473 | 2,532 | 734 | 622 | 1,356 | 3,888 | 961 |
| Miscellaneous | - | 60 | 20 | 55 | 135 | 4,234 | 220 | 4,454 | 4,589 | 1,255 |
| Depreciation | - | - | - | - | - | 2,347 | - | 2,347 | 2,347 | 4,146 |
| Bank charges | 5 | - | - | - | 5 | 6,505 | - | 6,505 | 6,510 | 4,772 |
| Postage and delivery | 2,695 | 960 | 24 | 259 | 3,938 | 388 | 3,623 | 4,011 | 7,949 | 8,077 |
| Interest | - | - | - | - | - | 667 | - | 667 | 667 | - |
| Board | - | - | - | - | - | 2,291 | - | 2,291 | 2,291 | - |
| Professional development | - | - | 1,000 | - | 1,000 | 45 | 300 | 345 | 1,345 | - |
| Taxes and licenses | - | - | - | - | - | 210 | - | 210 | 210 | 329 |
| Total expenses before in-kind services | 379,881 | 311,680 | 210,103 | 104,670 | 1,006,334 | 78,232 | 79,860 | 158,112 | 1,164,446 | 1,116,967 |
| In-kind services | 10,039 | 5,793 | 4,175 | 2,580 | 22,587 | 1,370 | 2,407 | 3,777 | 26,364 | 11,049 |
| Total Expenses | \$ 389,920 | \$ 317,473 | \$ 214,278 | \$ 107,250 | \$ 1,028,921 | \$ 79,602 | \$ 82,267 | \$ 161,889 | \$ 1,190,810 | \$ 1,128,016 |

See independent auditor's report and accompanying notes.

**BREAK THE CYCLE
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

| | 2011 | 2010 |
|--|-------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 134,095 | \$ (379,312) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 2,347 | 4,146 |
| (Increase) decrease in assets | | |
| Receivables | (193,549) | 51,454 |
| Prepaid expenses | 4,389 | 47 |
| Deposits | 122 | - |
| Increase (decrease) in liabilities | | |
| Accounts payable | (29,714) | 21,844 |
| Accrued vacation and payroll | 9,264 | (5,879) |
| Net cash (used) by operating activities | (73,046) | (307,700) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Principal received on mortgage note receivable | 160,828 | 27,371 |
| Mortgage notes interest received | 58,596 | (1,589) |
| Capital expenditures | (8,527) | - |
| Net cash provided by investing activities | 210,897 | 25,782 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal (payments)/advances on loans payable | (80,000) | 80,000 |
| NET DECREASE IN CASH | 57,851 | (201,918) |
| CASH AND CASH EQUIVALENTS, beginning of the year | 12,872 | 214,790 |
| CASH AND CASH EQUIVALENTS, end of the year | \$ 70,723 | \$ 12,872 |

See independent auditor's report and accompanying notes.

**BREAK THE CYCLE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – ORGANIZATION

Break the Cycle, (“BTC”) a 501(c)(3) national, nonprofit organization, that engages, educates, and empowers youth to build lives free from domestic and dating violence. BTC provides programs and services for young people ages 12 to 24. BTC’s major sources of income are from government grants and corporate contributions.

BTC entered into a collaboration agreement with the National Council on Family Violence (NCFV), a Texas non-profit corporation, effective January 1, 2011. NCFV is a provider of on-line and phone services for victims of dating abuse and BTC is a provider of programs designed to address teen dating violence. The organizations have come together in the development of a dating violence prevention and early intervention resource for teens and young adults known as Lovisrespect.org.

The Organization has the following major classes of programs:

Education and Outreach

- ***Prevention***
Building healthy relationship skills for a healthy future by providing young people with tools and information through in-school programs and the distribution of the *Respect WORKS!* comprehensive educational model.
- ***Awareness***
Increasing public knowledge and reducing tolerance of violence in our communities through education campaigns.
- ***Activism***
Developing the next generation of leaders in the movement to end domestic violence through mentoring and positive youth development programs like Speak.Act.Change.

Systemic Change

- ***Training***
Improving nationwide services for teens by educating adults who work most closely with them.
- ***Advocacy***
Transforming laws, policies, and systems to improve the lives of teens and young adults.

Intervention Services

- ***Help***
Ensuring the safety of teens and young adults at-risk or in danger by connecting young people to experts, information and confidential advice at loverisrespect.org and by offering direct legal services in the Washington, DC metropolitan area.

**BREAK THE CYCLE
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of BTC is presented to assist in understanding BTC's financial statements. The financial statements and notes are representations of BTC's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Basis of Accounting

The financial statements of BTC have been prepared using the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Restricted and Unrestricted Revenue and Support

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, BTC considers all deposits with a maturity of three months or less to be cash equivalents. The Organization maintains cash balances at two financial institutions located in Southern California. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2011 the Organization had no uninsured cash balances.

Accounts Receivable

Accounts receivable balances are stated at unpaid balances, no allowance for doubtful accounts was deemed necessary by management based upon historical experience.

**BREAK THE CYCLE
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax Status

BTC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is exempt from California franchise tax under Section 23701(d) of the State Revenue and Taxation Code.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the year ended December 31, 2011.

The Organization files its forms 990 in the U.S. Federal jurisdiction and the office of the state's attorney general for the State of California. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2008.

Contributions

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. BTC reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor's intended purpose is met or a time restriction expires, the temporarily restricted net assets are transferred to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted support.

Donated non-cash items are reflected in the financial statements as contributions when meeting the requirements for recognition. Donations of property and equipment, materials and professional services are recorded as support at their estimated fair value.

Donated Services and Costs

Donated services and costs are reflected on the basis of the fair value of the services received. The contributions of services and costs are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills, and (c) the services and costs would typically need to be purchased if not provided by donation. Accordingly, BTC recognized \$47,700 and \$49,035 during the years ended December 31, 2011 and 2010, respectively, for graphic design, event related expenses, accounting and tax preparation costs, and information technology.

See independent auditor's report.

**BREAK THE CYCLE
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising

BTC uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the years ended December 31, 2011 and 2010, advertising costs totaled \$8,223 and \$28,743, respectively.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Expense Allocation

The costs of providing the program and supporting services have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets and in the Statement of Functional Expenses. Certain costs have been allocated among the programs based on ratios determined by management. Costs are charged to education and outreach, systematic change, engaging, general and administrative, and fundraising functions based primarily on direct expenditures incurred. Expenses not directly chargeable to these functional categories are allocated based on direct labor dollars, square footage utilized, or a comparably reasonable basis of allocation.

NOTE 3 - MORTGAGE NOTES RECEIVABLE

During the year ended December 31, 2004, BTC received an unrestricted contribution of two mortgage notes receivable: Note A, mortgage note receivable due March 11, 2011 ("subject to acceleration under certain circumstances"); secured by a "certain pledge and security agreement"; with principal outstanding at the date of donation in the amount of \$581,721; with variable interest rate but not less than 7.5% per annum; payable in quarter installments of required minimum principal and interest; Note B, mortgage note receivable due March 27, 2011 ("subject to acceleration under certain circumstances"); secured by a "certain pledge and security agreement"; non-interest bearing, with principal outstanding at the date of donation in the face amount of \$219,424, recorded at fair value using a prevailing interest rate of .59%. These mortgage notes receivable are judged by management to be collectible, thus no allowance for doubtful accounts has been recorded.

On May 24, 2011, both notes were paid in full.

**BREAK THE CYCLE
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value at the date of the donation. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. For donations with no stipulations regarding how long those donated assets must be maintained, BTC reports these expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. At which time, BTC reclassifies temporarily restricted net assets to unrestricted net assets.

During 2009, BTC changed its depreciation method from double declining balance to straight line. Our comparison of these methods, at this stage of the life of the assets, did not show material differences to warrant any restatement of previously issued financial statements, nor did it materially affect the current year's income, as exhibited by the depreciation costs.

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of the assets are capitalized. Property and equipment are carried at cost and are depreciated using the straight-line method over the estimated useful life of the asset. Property and equipment consisted of the following as of December 31:

| | <u>Method</u> | <u>Estimated Useful Lives (Years)</u> | <u>2011</u> | <u>2010</u> |
|-------------------------------|---------------|---|------------------|-----------------|
| Furniture and equipment | Straight-line | 5 | \$ 63,053 | \$ 54,526 |
| Less accumulated depreciation | | | (51,117) | (48,770) |
| | | | <u>\$ 11,936</u> | <u>\$ 5,756</u> |

Depreciation for the years ended December 31, 2011 and 2010 was \$2,347 and \$4,146, respectively.

NOTE 5 – LOAN PAYABLE – RELATED PARTIES

Loans payable consisted of two loans provided by two members of the board of directors. The loans carried no interest and were due and payable on April 1, 2011. Interest was imputed at 3.25%, therefore the balance due is comprised of \$78,230 principal and \$1,770 interest.

As of May 26, 2011, both loans and accrued interest were paid in full.

**BREAK THE CYCLE
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 – COMMITMENTS

BTC conducts its National office operations in leased facilities under an operating lease expiring in July 17, 2014. On May 2, 2011, Washington D.C. office entered in into a lease agreement which commenced on December 1, 2011 and expires on November 30, 2014. The future minimum lease payments required under these non-cancelable operating leases for the years ending December 31 are as follows:

| | |
|------|-------------------|
| 2012 | \$ 119,439 |
| 2013 | 121,208 |
| 2014 | <u>91,467</u> |
| | <u>\$ 332,114</u> |

Rent expense for 2011 and 2010 totaled \$117,606 and \$113,778.

NOTE 7 – DONATED FACILITIES AND SERVICES

The value of donated services and facilities included as income and expenses in the financial statements for the year ended December 31, 2011, are as follows:

| | Education And Outreach | Systematic Change | Engaging | Helpline Ptsp. | G&A | Fund Raising | Total |
|---------------------------|------------------------------|----------------------|-----------------|-------------------|-----------------|------------------|------------------|
| Accounting | \$ 8,437 | \$ 5,049 | \$ 4,128 | \$ 2,218 | \$ 1,197 | \$ 1,835 | \$ 22,864 |
| Information technology | 1,602 | 744 | 47 | 362 | 173 | 572 | 3,500 |
| Special events | - | - | - | - | - | 21,336 | 21,336 |
| | <u>\$ 10,039</u> | <u>\$ 5,793</u> | <u>\$ 4,175</u> | <u>\$ 2,580</u> | <u>\$ 1,370</u> | <u>\$ 23,743</u> | <u>\$ 47,700</u> |

NOTE 8 – CONCENTRATION OF RISK AND ECONOMIC DEPENDENCE

Approximately 54% and 65% of revenues were received from government grants for the years ended December 31, 2011 and 2010, respectively. Accounts receivable in the Statement of Financial Position at December 31, 2011 and 2010 from these government grants amounted to \$30,479 and \$7,566, respectively.

NOTE 9 – EMPLOYEE BENEFIT PLAN

BTC sponsors a 403(b) defined contribution plan in which all employees with at least 90 days of service are eligible. The Organization made no contributions for the year ended December 31, 2011.

**BREAK THE CYCLE
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 – CONTINGENCIES

BTC receives a portion of its public support from various governmental contracts, all of which pay based on reimbursable costs as defined by each contract. Reimbursements recorded under these contracts are subject to audit. Management believes that no material adjustments will result from subsequent audits of costs reflected in the accompanying financial statements.

NOTE 11 – SUBSEQUENT EVENTS

Events subsequent to December 31, 2011 have been evaluated through August 23, 2012 the date at which the Organization's audited financial statements were available to be issued. No events requiring disclosures have occurred through this date.

Of course, if events requiring disclosure have occurred between the balance sheet date and the date the financial statements were available to be issued they would be disclosed here.

**BREAK THE CYCLE
SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

| FEDERAL GRANTOR/PASS-THROUGH GRANTOR Program Title Grant Number | Federal CFDA Number | Disbursements / Expenditures |
|--|---------------------------|---------------------------------|
| DEPARTMENT OF JUSTICE | | |
| <i>Technical Assistance Program</i> | | |
| Contract No. 2007-TA-AX-K024 | 16.526 | \$ 178,139 |
| Contract No. 2011-TA-AX-K020 | 16.526 | <u>186,904</u> |
| <i>Total for CFDA 16.526</i> | | <u>365,043</u> |
| <i>Legal Assistance for Victims</i> | | |
| Control No. 2010-WL-AX-0006 | 16.524 | <u>151,837</u> |
| <i>Crime Victim Assistance/Discretionary Grants</i> | | |
| Contract No. 2009-VF-GX-K010 | 16.582 | 15,582 |
| Contract No. 2010-VF-GX-K021 | 16.582 | <u>63,844</u> |
| <i>Total for CFDA 16.582</i> | | <u>79,426</u> |
| PASS-THROUGH: | | |
| District of Columbia – Office of Victim Services | | |
| <i>Recovery Act – Edward Byrne Memorial Justice Assistance Grant Program/Grants to Units of Local Government</i> | | |
| Contract No. 2009-JAG-RA-06 | 16.803 | <u>59,646</u> |
| TOTAL FEDERAL AWARDS | | <u>\$ 655,952</u> |

This scheduled has been prepared on the accrual basis of accounting.

See independent auditor's report.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Break the Cycle
Los Angeles, California

We have audited the financial statements of Break the Cycle as of and for the year ended December 31, 2011, and have issued our report thereon dated August 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Break the Cycle is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Break the Cycle's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Break the Cycle's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Break the Cycle's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Break the Cycle's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

The Ozurovich Group, Inc.

The Ozurovich Group, Inc.

Los Angeles, California
August 23, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of
Break the Cycle
Los Angeles, California

Compliance

We have audited the compliance of Break the Cycle with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Break the Cycle's major federal programs for the year ended December 31, 2011. Break the Cycle's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Break the Cycle's management. Our responsibility is to express an opinion on Break the Cycle's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about Break the Cycle's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Break the Cycle's compliance with those requirements.

In our opinion, Break the Cycle complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of Break the Cycle is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered Break the Cycle's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Break the Cycle's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

The Ozurovich Group, Inc.

The Ozurovich Group, Inc.

Los Angeles, California
August 23, 2012

**BREAK THE CYCLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Break the Cycle.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Break the Cycle were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs for Break the Cycle expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award program for Break the Cycle.
7. The program tested as a major program was Technical Assistance Program CFDA #16.526.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Break the Cycle was determined not to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

D. PRIOR YEAR AUDIT FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None