

BREAK THE CYCLE

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

CONTENTS

	<u>Page</u>
FINANCIAL STATEMENTS	
Independent auditor's report	1
Statement of financial position	2
Statement of activities and changes in net assets	3
Statement of functional expenses	4
Statement of cash flows	5
Notes to financial statements	6 – 11
SUPPLEMENTARY INFORMATION	
Schedule of federal awards	12
Independent auditor's report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	13 – 14
Independent auditor's report on compliance with requirements applicable to each major program and internal control over compliance in accordance with <i>OMB Circular A-133</i>	15 – 16
Schedule of findings and questioned costs	17

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Independent Auditor's Report

L+O

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, 2008, 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's summarized comparative information derived from the Organization's 2007 financial statements, was audited by other auditors whose report dated October 10, 2008, 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 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, 2008 and 2007, and the changes in its net assets and its cash flow for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2009, on our consideration of Break the Cycle's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of federal awards is presented for 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Licker + Ozurovich, CPAs


Los Angeles, California
June 19, 2009

**BREAK THE CYCLE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007**

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 275,505	\$ 16,298
Accounts receivable	83,310	109,534
Mortgage notes receivable - current	25,987	35,117
Prepaid expenses	14,537	6,928
Total current assets	399,339	167,877
Property and equipment – net	19,939	11,462
Mortgage notes receivable – non-current	262,969	378,769
Mortgage note interest receivable	54,292	25,090
Deposits	15,323	6,323
TOTAL ASSETS	\$ 751,862	\$ 589,521
LIABILITIES		
Current liabilities		
Accounts payable	\$ 2,075	\$ 43,073
Accrued vacation	15,362	23,418
Current portion of capital lease	-	1,874
TOTAL LIABILITIES	17,437	68,365
NET ASSETS		
Unrestricted net assets	734,425	499,467
Temporarily restricted net assets	-	21,689
TOTAL LIABILITIES AND NET ASSETS	\$ 751,862	\$ 589,521

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, 2008 AND 2007

	2008			2007
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE				
Government contracts	\$ 912,233	\$ -	\$ 912,233	\$ 345,179
Program service fees	14,013	-	14,013	6,446
Other income	30,989	-	30,989	30,699
Interest and dividends	45,963	-	45,963	36,049
Total Revenue	<u>1,003,198</u>	<u>-</u>	<u>1,003,198</u>	<u>418,373</u>
SUPPORT				
Individuals contributions	58,615	-	58,615	48,340
Corporate and business	326,930	-	326,930	64,700
Foundations and trusts	16,500	161,551	178,051	226,412
Non-profit organizations	2,945	23,806	26,751	5,499
Special events	120,574	-	120,574	109,227
Total Support	<u>525,564</u>	<u>185,357</u>	<u>710,921</u>	<u>454,178</u>
Total revenue and support	1,528,762	185,357	1,714,119	872,551
Donated facilities and services	55,860	-	55,860	56,376
Net assets released from restriction	<u>207,046</u>	<u>(207,046)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE, SUPPORT AND RECLASSIFICATIONS	<u>1,791,668</u>	<u>(21,689)</u>	<u>1,769,979</u>	<u>928,927</u>
EXPENSES				
Program Services				
Education and outreach	654,525	-	654,525	302,640
Legal services	-	-	-	201,692
Engaging	277,118	-	277,118	100,515
Systematic change	286,168	-	286,168	53,600
Communication and outreach	-	-	-	168,833
Total Program Services	<u>1,217,811</u>	<u>-</u>	<u>1,217,811</u>	<u>827,280</u>
Supporting Services				
General and administrative	100,595	-	100,595	72,284
Fund raising	238,304	-	238,304	187,985
Total Supporting Services	<u>338,899</u>	<u>-</u>	<u>338,899</u>	<u>260,269</u>
TOTAL EXPENSES	<u>1,556,710</u>	<u>-</u>	<u>1,556,710</u>	<u>1,087,549</u>
CHANGE IN NET ASSETS	234,958	(21,689)	213,269	(158,622)
NET ASSETS, Beginning of the year	<u>499,467</u>	<u>21,689</u>	<u>521,156</u>	<u>679,778</u>
NET ASSETS, End of the year	<u>\$ 734,425</u>	<u>\$ -</u>	<u>\$ 734,425</u>	<u>\$ 521,156</u>

See independent auditor's report and accompanying notes.

**BREAK THE CYCLE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008				2007			
	Program Services		Supporting Services		Program Services		Supporting Services	
	Education and Outreach	Systematic Change	Engaging	Total	General and Administrative	Fund Raising	Total	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Salaries, payroll taxes and employee benefits	241,623	196,867	198,684	637,164	65,513	104,948	170,461	807,625
Video production	191,046			191,046				191,046
Rent	38,198	38,939	23,776	100,913	5,175	86,674	86,674	117,635
Special events								86,674
Printing and publication costs	44,849	2,013	362	47,324	4,249	16,808	21,057	68,381
Advertising and marketing	39,634	-		39,634				39,634
Subgrants	16,643	9,928	6,250	32,821				32,821
Accounting	9,454	7,264	7,264	24,002	1,625	3,423	5,048	29,050
Travel	12,412	4,092	3,480	19,984	1,020	3,850	4,870	24,864
Insurance	4,622	2,243	12,048	18,913	3,665	1,961	5,626	23,667
PEO administrative fee	6,600	5,603	5,483	17,686	1,965	2,709	4,673	22,359
Supplies and materials	13,581	2,000	4,056	19,637	216	478	694	20,331
Consulting	14,720		125	14,845	4,200		4,200	19,045
Conferences	7,478	7,534	225	15,237	30		30	15,267
Dues, memberships and subscriptions	3,837	44	7,283	11,164		1,131	1,132	12,296
Telephone	2,289	5,569	3,452	11,310	115	182	297	11,607
Information tech and support	435	3,101	30	3,566	307	2,720	3,027	6,593
Equipment	1,904	232	3,211	5,347	273	798	1,071	6,418
Meals and entertainment	2,091	416	684	3,191	1,031	443	1,474	4,665
Miscellaneous	688	222	281	1,191	2,237	258	2,495	3,696
Depreciation					3,647		3,647	3,647
Bank charges					3,643		3,643	3,643
Postage and delivery	2,321	91	117	2,529	400	375	775	3,304
Interest			128	128	952		952	1,080
Taxes and licenses			169	169	331		331	500
Total Expenses	654,525	286,168	277,118	1,217,811	100,595	238,304	338,899	1,556,710
	\$	\$	\$	\$	\$	\$	\$	\$

See independent auditor's report and accompanying notes.

**BREAK THE CYCLE
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 213,269	\$ (158,622)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	3,647	3,883
(Increase) decrease in assets		
Accounts receivable	26,224	(45,796)
Prepaid expenses	(7,609)	1,571
Deposits	(9,000)	-
Increase (decrease) in liabilities		
Accounts payable	(40,998)	22,617
Accrued vacation	(8,056)	23,265
Net cash (used) by operating activities	<u>177,477</u>	<u>(153,082)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal received on mortgage note receivable	124,930	110,052
Mortgage notes interest receivable	(29,202)	-
Capital expenditures	(12,124)	(8,199)
Net cash provided by investing activities	<u>83,604</u>	<u>101,853</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	-	57,000
Payments on capital lease	(1,874)	(1,724)
Payments on line of credit	-	(57,000)
Net cash (used) by financing activities	<u>(1,874)</u>	<u>(1,724)</u>
NET INCREASE (DECREASE) IN CASH	259,207	(52,953)
CASH AND CASH EQUIVALENTS, beginning of the year	<u>16,298</u>	<u>69,251</u>
CASH AND CASH EQUIVALENTS, end of the year	<u>\$ 275,505</u>	<u>\$ 16,298</u>
Supplementary information		
Interest paid	<u>\$ 1,080</u>	<u>\$ 1,646</u>

See independent auditor's report and accompanying notes.

**BREAK THE CYCLE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – ORGANIZATION

Break the Cycle, Inc., (“BTC”) (a 501(c)(3) nonprofit organization), is a national organization that engages, educates, and empowers youth to build lives and communities free from domestic and dating violence. BTC works on both a national and a local level to empower youth to end domestic violence. Its offices in Los Angeles and Washington D.C. provide young people, ages 12 to 24, with preventive education, peer leadership opportunities, free legal services advocacy and support. BTC also educates the public, policy-makers, and service providers about domestic and dating violence, and providing legal options to teens. BTC’s major sources of income are from government grants and contributions.

The Organization has the following major classes of programs:

Education and Outreach

- ***Education***
Provides domestic violence prevention education, teaching young people ages 12 to 24 about domestic violence, healthy relationships, help resources available and their legal rights and responsibilities around this issue
- ***Communications and Outreach***
This program area includes increasing awareness of BTC’s expertise, programs and services through avenues including their website, online and print communications, tabling and the distribution of print and electronic materials

Systemic Change

- ***Policy***
Break the Cycle performs policy research, analysis and develops models to help communities improve systems and services so that they are responsive and accessible to young people experiencing domestic and dating violence.
- ***Technical Assistance***
Provides training, advice, tools and resources to teachers, law enforcement, attorneys, parents, counselors and other service-providers so that they may more effectively and sensitively serve young people experiencing domestic and dating violence

Engaging

- ***Intervention***
Provides free, comprehensive legal services, advice, referrals, information, representation and referrals to young victims of domestic and dating violence ages 12 to 24.
- ***Peer Leadership***
BTC enlists and engages youth volunteers, interns and activists ages 12 to 24 to take action to increase awareness of domestic violence and Break the Cycle through peer-to-peer outreach

See independent auditor’s report.

**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.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No 117, BTC 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

BTC accounts for grants and contributions in accordance with SFAS No 116, *Accounting for Contributions Received and Contributions Made*. Grants and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), 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, 2008 the Organization had no uninsured cash balances.

Accounts Receivable

Accounts receivable is comprised of the following for the years ending December 31:

	2008	2007
Government contracts	\$ 65,881	\$ 85,350
Contributions	6,467	19,166
Accounts receivable	10,962	5,018
	<u>\$ 83,310</u>	<u>\$ 109,534</u>

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

See independent auditor's report.

**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.

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 \$55,860 and \$56,376 during the years ended December 31, 2008 and 2007, respectively, for graphic design, event related expenses, accounting and tax preparation costs.

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, 2008 and 2007, advertising costs totaled \$39,636 and \$12,800, 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.

See independent auditor's report.

**BREAK THE CYCLE
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 .89%. These mortgage notes receivable are judged by management to be collectible, thus no allowance for doubtful accounts has been recorded.

Amounts recorded as mortgage notes receivable as of December 31, 2008 are due as follows:

	<u>Less than 1 year</u>	<u>1 – 5 years</u>	<u>Total</u>
Note A principal payments due	\$ 25,987	\$ 116,970	\$ 142,957
Note B principal payments due	-	219,424	219,424
Sub-total	<u>\$ 25,987</u>	<u>\$ 336,394</u>	362,381
Less present value discount at 8.9% per annum			<u>(73,425)</u>
			<u>\$ 288,956</u>

See independent auditor's report.

**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 2008, 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>2008</u>	<u>2007</u>
Furniture and equipment	Straight-line	5	\$ 50,548	\$ 38,424
Less accumulated depreciation			(30,609)	(26,962)
			<u>\$ 19,939</u>	<u>\$ 11,462</u>

Depreciation for the years ended December 31, 2008 and 2007 was \$3,647 and \$3,883, respectively.

NOTE 5 - COMMITMENTS

BTC conducts its National office operations in leased facilities under an operating lease expiring in May 2009. On April 15, 2008, the Washington D.C. office entered into a sublease agreement which expires on December 30, 2010. The future minimum lease payments required under these non-cancelable operating leases for the years ending December 31 are as follows:

	<u>National Office</u>	<u>Washington D.C. Office</u>	<u>Total</u>
2009	\$ 24,600	\$ 60,000	\$ 84,600
2010	-	60,000	60,000
	<u>\$ 24,600</u>	<u>\$ 120,000</u>	<u>\$ 144,600</u>

Rent expense for 2008 and 2007 totaled \$117,635 and \$102,623.

See independent auditor's report.

**BREAK THE CYCLE
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 – NET ASSETS RELEASED FROM RESTRICTIONS

Total net assets released from restrictions for various purposes for the years ending December 31, 2008 and 2007 amounted to \$207,046 and \$154,279 respectively

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, 2008, are as follows:

	Education And Outreach	Systematic Change	Engaging	General and Administrative	Fund Raising	Total
Accounting	\$ 6,890	\$ 5,307	\$ 5,290	\$ 1,186	\$ 2,493	\$ 21,166
Design, printing and publication	6,875	-	-	-	9,875	16,750
Rent	2,194	5,544	2,772	578	462	11,550
Advertising/marketing	4,113	-	-	-	-	4,113
Special events	-	-	-	-	2,281	2,281
	<u>\$ 20,072</u>	<u>\$ 10,851</u>	<u>\$ 8,062</u>	<u>\$ 1,764</u>	<u>\$ 15,111</u>	<u>\$ 55,860</u>

NOTE 8– CONCENTRATION OF RISK AND ECONOMIC DEPENDENCE

Approximately 56% and 49% of revenues were received from government grants for the years ended December 31, 2008 and 2007, respectively. Accounts receivable in the Statement of Financial Position at December 31, 2008 and 2007 from these government grants amounted to \$65,881 and \$87,679, respectively.

NOTE 9 – LINE OF CREDIT

Line of credit consisted of a \$100,000 bank revolving line of credit bearing interest at banks prime rate plus 1.5% due May 31, 2009. There were no outstanding balances as of December 31, 2008 and 2007, respectively.

NOTE 10 – 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 does not contribute any amounts to the plan.

NOTE 11 – 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.

See independent auditor's report.

**BREAK THE CYCLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

FEDERAL GRANTOR Program Title Pass-through Grantor Grant Number	Federal CFDA Number	Grant Award Amount	Revenue Recognized	Disbursements/ Expenditures
DEPARTMENT OF JUSTICE				
<i>Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program</i>	16 580			
Office on Violence Against Women 2007-DD-BX-K109		\$ 278,287	\$ 246,794	\$ 246,794
<i>Legal Assistance for Victims</i>	16 524			
Office on Violence Against Women 2007-WL-AX-0032		303,282	149,608	149,608
<i>OVW Technical Assistance Initiative</i>	16.526			
Office of Violence Against Women 2007-TA-AX-K024		388,273	<u>177,946</u>	<u>177,946</u>
TOTAL FEDERAL AWARDS			<u>\$ 574,348</u>	<u>\$ 574,348</u>

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**Independent Auditor's 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 of
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, 2008, and have issued our report thereon dated June 19, 2009. 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

In planning and performing our audit, we considered Break the Cycle's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management and grantors listed in the accompanying Schedule of Expenditures of Federal Awards and is not intended to be and should not be used by anyone other than these specified parties

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Los Angeles, California
June 19, 2009

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**Independent Auditor's Report on Compliance with
Requirements Applicable to 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 are applicable to each of its major federal programs for the year ended December 31, 2008. Break the Cycle's major federal and state 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, the Break the Cycle's complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended December 31, 2008.

Internal Control Over Compliance

The 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 Break the Cycle's internal control over compliance.

A control deficiency in an entity's 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 and grantors listed in the accompanying Schedule of Expenditures of Federal Awards and is not intended to be and should not be used by anyone other than these specified parties.

Licker + Ozurovich, CPAs

Licker + Ozurovich

Los Angeles, California
June 19, 2009

**BREAK THE CYCLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

PART I - 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 finding relative to the major federal award program for Break the Cycle.
- 7 The program tested as a major program was the Edward Byrne Memorial State and Local Enforcement Assistance Discretionary Grants Program CFDA #16 580.
- 8 The threshold for distinguishing Types A and B programs was \$300,000.
- 9 Break the Cycle was determined to be a low-risk auditee

PART II - FINANCIAL STATEMENT FINDINGS

None

PART III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None