

BREAK THE CYCLE
(A California Not-For-Profit Organization)

FINANCIAL STATEMENTS

For The Years Ended
DECEMBER 31, 2006 AND 2005

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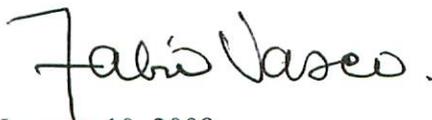
INDEPENDENT AUDITOR'S REPORT

Board of Directors
Break the Cycle
Los Angeles, California

I have audited the accompanying statements of financial position of Break the Cycle ("BTC" or the "Organization") (a California not-for-profit organization) as of December 31, 2006 and 2005, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of BTC's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BTC as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



January 10, 2008
Los Angeles, California

BREAK THE CYCLE

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2006 AND 2005

ASSETS

	<u>2006</u>	<u>2005</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 69,251	\$ 46,074
Accounts receivables, no allowance necessary	63,738	7,396
Current portion of mortgage notes receivable	42,538	46,765
Prepaid expenses	<u>8,499</u>	<u>8,065</u>
Total current assets	<u>184,026</u>	<u>108,300</u>
PROPERTY AND EQUIPMENT, net	6,993	9,922
MORTGAGE NOTES RECEIVABLE, less current portion	490,674	563,165
MORTGAGE NOTE INTEREST RECEIVABLE	15,816	13,411
DEPOSITS	<u>6,323</u>	<u>6,323</u>
	<u>\$ 703,832</u>	<u>\$ 701,121</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 20,456	\$ 2,439
Accrued expenses	153	16,222
Line of credit	-	26,000
Current portion of capital lease	<u>1,569</u>	<u>1,953</u>
Total current liabilities	<u>22,178</u>	<u>46,614</u>
CAPITAL LEASE, less current portion	1,876	2,805
NET ASSETS:		
Unrestricted	648,922	582,678
Unrestricted-board designated	-	2,566
Temporarily restricted	<u>30,856</u>	<u>66,458</u>
Total net assets	<u>679,778</u>	<u>651,702</u>
	<u>\$ 703,832</u>	<u>\$ 701,121</u>

See accompanying notes to financial statements

BREAK THE CYCLE
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES, GAINS, AND OTHER SUPPORT:		
Government grants	\$ 58,876	\$ 103,292
Corporate and business	120,863	82,765
Foundations and trusts	316,034	62,342
Non-profit organizations	563	1,100
Program service fees	2,857	2,375
Interest and dividend income	38,622	50,604
Special event income, net of expenses of \$74,288 (2006) and \$108,056 (2005)	25,785	66,199
Contributions	57,696	74,060
Donated goods and services, at fair value	88,785	112,102
Other	<u>21,048</u>	<u>8,137</u>
Total unrestricted revenues and gains	<u>731,129</u>	<u>562,976</u>
NET ASSETS RELEASED FROM RESTRICTIONS:		
Satisfied by payments	<u>276,053</u>	<u>223,442</u>
Total unrestricted revenues, gains and other	<u>1,007,182</u>	<u>786,418</u>
FUNCTIONAL EXPENSES:		
Program services	761,222	947,168
Management and general	63,488	90,217
Fundraising	<u>118,790</u>	<u>250,282</u>
Total functional expenses	<u>943,500</u>	<u>1,287,667</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	63,682	(501,249)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	240,447	241,150
Net assets released from restrictions	<u>(276,053)</u>	<u>(223,442)</u>
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(35,606)</u>	<u>17,708</u>
CHANGE IN NET ASSETS	28,076	(483,541)
NET ASSETS, beginning of year	<u>651,702</u>	<u>1,135,243</u>
NET ASSETS, end of year	\$ <u><u>679,778</u></u>	\$ <u><u>651,702</u></u>

See accompanying notes to financial statements

BREAK THE CYCLE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 28,076	\$ (483,541)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	5,034	5,522
Changes in assets and liabilities:		
Gain on sale of investment	-	(2,500)
Accounts receivable	(56,342)	4,255
Prepaid expenses	(434)	5,583
Deposits	-	637
Accounts payable	18,017	(259)
Accrued expenses	<u>(16,069)</u>	<u>12,784</u>
Net cash (used in) operating activities	(21,718)	(457,519)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investment	-	2,500
Mortgage notes receivable	74,313	97,462
Equipment purchases	<u>(2,105)</u>	<u>(4,956)</u>
Net cash provided by investing activities	<u>72,208</u>	<u>95,006</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	99,100	50,758
Payments on capital lease	(1,313)	-
Payments on line of credit	<u>(125,100)</u>	<u>(20,000)</u>
Net cash (used in) provided by financing activities	<u>(27,313)</u>	<u>30,758</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,177	(331,755)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>46,074</u>	<u>377,829</u>
End of year	\$ <u>69,251</u>	\$ <u>46,074</u>

See accompanying notes to financial statements

BREAK THE CYCLE

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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, and its national office educates the public, policy-makers, and service providers about dating and domestic violence, and the legal options available to teens.

Basis of Presentation

BTC adopted SFAS No 116, “*Accounting for Contributions Received and Contributions Made,*” whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Restrictions of net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, BTC reports the support as unrestricted.

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

BTC adopted 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. BTC has no permanently restricted assets as of December 31, 2006 and 2005.

Management 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. Actual results could differ from those estimates.

BREAK THE CYCLE

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash:

BTC maintains its cash balances in high credit quality financial institutions and, at times, these balances may exceed federally insured limits. BTC has not experienced any losses on such accounts.

Cash Equivalents

Cash equivalents include money market accounts, time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less which are not securing any BTC obligations.

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. Absent donor stipulations regarding how long those donated assets must be maintained, BTC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. BTC reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which are generally five years.

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.

BREAK THE CYCLE

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributed Services and Costs

Contributed services and costs are reflected at their 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 \$88,785 and \$112,102 during the years ended December 31, 2006 and 2005, respectively, for graphic design, video and event production, accounting and tax preparation costs.

Functional Allocation of Expenses

Costs are charged to education and outreach, legal services, peer leadership, community and outreach, policy, management and general, and fundraising functions based primarily on direct expenditures incurred. Expenses not directly chargeable to these functional categories are allocated on direct labor dollars, square footage utilized, or a comparably reasonable basis of allocation.

Unrestricted - Board Designated Net Assets

The Board of Directors adopted a resolution designed to distinguish a specific amount of unrestricted funds. These funds are restricted to narrowly defined activities. At December 31, 2006 and 2005, the amounts of these available funds were \$0 and \$2,566, respectively.

Income Taxes

BTC received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and, Section 27301d of the California Revenue and Taxation Code.

NOTE 2 - CONCENTRATION OF RISK

Approximately 8% and 13% of revenues were received from government grants for the years ended December 31, 2006 and 2005, respectively. Accounts receivable in the Statement of Financial Position at December 31, 2006 and 2005 from these government grants amounted to \$2,857 and \$2,048, respectively.

BREAK THE CYCLE

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

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 5.25%. 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, 2006 are due as follows:

	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>Total</u>
Note A principal payments due	\$ 42,538	\$ 363,868	\$ 406,406
Note B principal payments due	<u>-</u>	<u>219,424</u>	<u>219,424</u>
Subtotal	<u>\$ 42,538</u>	<u>\$ 583,292</u>	<u>625,830</u>
Less present value discount at 5.25% per annum			<u>(92,618)</u>
Net mortgage notes receivable			<u>\$ 533,212</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment are comprised of:

	<u>2006</u>	<u>2005</u>
Furniture and equipment	\$ 30,072	\$ 27,967
Less: accumulated depreciation	<u>(23,079)</u>	<u>(18,045)</u>
Property and equipment, net	<u>\$ 6,993</u>	<u>\$ 9,922</u>

Depreciation expense for the years ended December 31, 2006 and 2005 amounted to \$5,034 and \$5,522, respectively.

BREAK THE CYCLE

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 5 - LINE OF CREDIT

Line of credit consisted of a \$50,000 bank revolving line of credit bearing interest at 8.25% due October 27, 2006. Outstanding balances as of December 31, 2006 and 2005 were \$0 and \$26,000, respectively.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for various purposes, as follows:

	<u>2006</u>	<u>2005</u>
Education and outreach programs	\$ <u>30,856</u>	\$ <u>66,458</u>

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Operating Lease

BTC conducts its National and Los Angeles office operations in leased facilities under an operating lease expiring in March 2009. The following is a schedule by year of the future minimum lease payments required under the operating lease that has noncancellable lease terms in excess of one year as of December 31, 2006:

<u>Year Ending December 31,</u>	<u>National & L.A. Office</u>
2007	\$ 57,060
2008	59,040
2009	<u>24,600</u>
	<u>\$140,700</u>

Rent expense for 2006 and 2005 totaled \$101,037 and \$141,322, respectively; which includes in-kind donated rent for 2006 and 2005 of \$39,600 and \$57,600, respectively.

BREAK THE CYCLE

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 7 - COMMITMENTS AND CONTINGENCIES - CONTINUED

Capital Lease

During the year ended December 31, 2005, BTC entered into a three-year capital lease for telephone equipment. The economic substance of the lease is that BTC is financing the acquisition of the asset through the lease, and accordingly, it is recorded in BTC's assets and liabilities. At December 31, 2006, the asset was capitalized at \$5,000 and accumulated amortization was \$2,100.

The following is a schedule by years of future minimum payments required under the lease together with their present value as of December 31, 2006:

<u>Year Ending December 31,</u>	<u>Total</u>
2007	\$ 1,569
2008	<u>1,640</u>
Total minimum lease payments	3,209
Less amounts representing interest	<u>236</u>
Present value of minimum lease payments	\$ <u><u>3,445</u></u>

NOTE 8 - 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 9 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<u>2006</u>	<u>2005</u>
Cash paid during the year for interest	\$ <u><u>3,256</u></u>	\$ <u><u>558</u></u>

Also, as described in Note 7 above, BTC entered into a capitalized lease arrangement for telephone equipment valued at \$5,000 and present value of minimum lease payments of \$3,445, at December 31, 2006.

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTAL INFORMATION

Board of Directors
Break the Cycle
Los Angeles, California

My report on the audits of the basic financial statements of Break the Cycle for the years ended December 31, 2006 and 2005 appears on page 1. These audits were conducted for the purpose of forming an opinion on such financial statements taken as a whole. The schedules of functional expenses for the years ended December 31, 2006 and 2005 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements for the years ended December 31, 2006 and 2005 taken as a whole.



January 10, 2008
Los Angeles, California

BREAK THE CYCLE
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2006

	<u>Program Services</u>					<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Education and Outreach</u>	<u>Legal Services</u>	<u>Peer Leadership</u>	<u>Community and Outreach</u>	<u>Policy</u>			
Accounting/bookkeeping	\$ 1,062	\$ 1,028	\$ 1,028	\$ 1,028	\$ 1,028	\$ 1,260	\$ 1,070	\$ 7,504
Advertising	-	-	-	-	-	75	-	75
Automobile mileage reimbursement	3,073	2,212	152	910	61	142	9	6,559
Bank charges	-	-	-	-	-	2,757	1,132	3,889
Consulting	-	-	-	25,000	450	3,000	16,680	45,130
Continuing education/training	39	149	39	59	39	-	65	390
Depreciation	-	-	-	-	-	5,034	-	5,034
Direct mail	-	-	-	620	-	-	3,001	3,621
Dues and memberships	-	207	-	16	-	240	15	478
Employee benefits	9,647	12,521	7,734	6,420	3,014	2,287	5,311	46,934
Entertainment	48	-	-	14	-	42	1,040	1,144
Equipment rental	1,470	1,319	1,127	880	566	373	653	6,388
Insurance	3,020	11,413	2,494	2,164	746	3,816	1,924	25,577
Interest expense	-	-	-	-	-	3,256	-	3,256
Maintenance and repairs	812	812	690	57	148	217	530	3,766
Newsletter	-	-	-	2,408	-	-	-	2,408
Office supplies	1,158	993	861	681	543	122	330	4,688
Parking	638	1,182	5	125	72	-	36	2,058
PEO administrative fees	3,920	3,670	3,124	2,571	1,255	1,157	2,096	17,793
Postage and delivery	501	618	419	333	88	287	1,882	4,128
Printing and publication	-	-	12	910	12	-	-	934
Program materials	1,702	155	-	31,608	-	-	-	33,465
Rent	24,100	20,932	18,080	14,087	10,701	4,261	8,877	101,038
Salaries and wages	118,087	109,494	93,787	80,708	41,408	25,127	65,431	534,042
Subscriptions	1,158	2,900	1,158	1,218	1,197	-	2,031	9,662
Taxes and licenses	6	-	-	-	-	393	-	399
Taxes – payroll	10,238	9,510	8,126	6,888	3,525	2,385	5,578	46,250
Telephone and DSL charges	2,669	2,288	1,985	1,569	1,251	467	951	11,180
Travel	332	972	53	-130	402	465	19	2,113
Volunteer expense	-	-	-	226	-	-	-	226
Miscellaneous	197	223	167	135	95	6,325	129	7,271
Multimedia	-	-	-	6,100	-	-	-	6,100
Total functional expenses	\$ <u>183,877</u>	\$ <u>182,598</u>	\$ <u>141,041</u>	\$ <u>187,105</u>	\$ <u>66,601</u>	\$ <u>63,488</u>	\$ <u>118,790</u>	\$ <u>943,500</u>

BREAK THE CYCLE
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2005

	<u>Program Services</u>			<u>Management and General</u>	<u>Fundraising</u>	<u>Totals</u>
	<u>Education and Outreach</u>	<u>Legal Services</u>	<u>Peer Leadership</u>			
Accounting/bookkeeping	\$ 4,471	\$ 4,488	\$ 3,580	\$ 2,901	\$ 3,748	\$ 19,188
Advertising	95	45	-	175	200	515
Automobile mileage reimbursement	3,105	2,497	22	486	113	6,223
Bank charges	-	-	-	3,707	-	3,707
Conference fees/meetings	-	-	-	60	-	60
Consulting	5,000	5,000	5,000	8,947	5,000	28,947
Continuing education/training	133	584	91	1	41	850
Depreciation	-	-	-	5,522	0	5,522
Dues and memberships	1,324	1,558	37	137	324	3,380
Employee benefits	16,700	18,415	9,842	3,377	12,467	60,801
Entertainment	352	163	412	462	147	1,536
Equipment rental	2,148	2,185	1,313	408	1,455	7,509
Insurance	5,332	13,647	3,190	3,624	3,926	29,719
Interest expense	-	-	-	558	-	558
Office supplies	1,642	1,413	933	198	633	4,819
Outside labor	-	3,500	-	-	-	3,500
Parking	392	1,225	128	42	132	1,919
PEO administrative fees	7,115	7,171	4,225	1,327	5,016	24,854
Postage and delivery	7,625	777	479	159	840	9,880
Printing and publication	21,022	1,534	504	140	1,641	24,841
Program materials	248	-	-	-	-	248
Public relations	-	-	-	-	664	664
Rent	42,213	42,745	25,576	5,771	25,017	141,322
Salaries and wages	225,348	226,732	137,694	44,710	169,990	804,474
Taxes and licenses	124	124	64	187	35	534
Taxes – payroll	20,347	20,484	12,372	3,909	14,826	71,938
Telephone and DSL charges	4,708	4,752	2,863	949	2,391	15,663
Travel	2,410	978	752	1,088	1,155	6,383
Board expense	-	-	-	691	-	691
Miscellaneous	20	56	-	658	-	734
Multimedia	56	56	50	12	39	213
Website	7	5,973	2	11	482	6,475
Total functional expenses	\$ <u>371,937</u>	\$ <u>366,102</u>	\$ <u>209,129</u>	\$ <u>90,217</u>	\$ <u>250,282</u>	\$ <u>1,287,667</u>