

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

FINANCIAL STATEMENTS

For The Years Ended
DECEMBER 31, 2007 AND 2006

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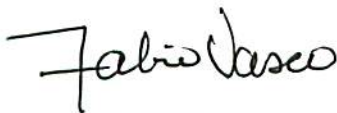
INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
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, 2007 and 2006, 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, 2007 and 2006, 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.



October 10, 2008
Los Angeles, California

BREAK THE CYCLE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,298	\$ 69,251
Accounts receivables, no allowance necessary	109,534	63,738
Current portion of mortgage notes receivable	35,117	42,538
Prepaid expenses	<u>6,928</u>	<u>8,499</u>
Total current assets	167,877	184,026
 PROPERTY AND EQUIPMENT, net	 11,462	 6,993
 MORTGAGE NOTES RECEIVABLE, less current portion	 378,769	 490,674
 MORTGAGE NOTE INTEREST RECEIVABLE	 25,090	 15,816
 DEPOSITS	 <u>6,323</u>	 <u>6,323</u>
	\$ <u>589,521</u>	\$ <u>703,832</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 43,073	\$ 20,456
Accrued expenses	23,418	153
Current portion of capital lease	<u>1,874</u>	<u>1,569</u>
Total current liabilities	<u>68,365</u>	<u>22,178</u>
 CAPITAL LEASE, less current portion	 -	 1,876
 NET ASSETS:		
Unrestricted	499,467	648,922
Temporarily restricted	<u>21,689</u>	<u>30,856</u>
Total net assets	<u>521,156</u>	<u>679,778</u>
	\$ <u>589,521</u>	\$ <u>703,832</u>

See independent auditor's report and accompanying notes to financial statements

BREAK THE CYCLE
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES, GAINS, AND OTHER SUPPORT:		
Government grants	\$ 345,179	\$ 58,876
Corporate and business	64,700	120,863
Foundations and trusts	81,300	316,034
Non-profit organizations	5,499	563
Program service fees	6,446	2,857
Interest and dividend income	36,049	38,622
Special event income, net of expenses of \$84,040 (2007) and \$74,288 (2006)	25,187	25,785
Contributions	48,340	57,696
Donated goods and services, at fair value	56,376	88,785
Other	<u>30,699</u>	<u>21,048</u>
Total unrestricted revenues and gains	<u>699,775</u>	<u>731,129</u>
NET ASSETS RELEASED FROM RESTRICTIONS:		
Satisfied by payments	<u>154,279</u>	<u>276,053</u>
Total unrestricted revenues, gains and other	<u>854,054</u>	<u>1,007,182</u>
FUNCTIONAL EXPENSES:		
Program services	827,280	761,222
Management and general	72,284	63,488
Fundraising	<u>103,945</u>	<u>118,790</u>
Total functional expenses	<u>1,003,509</u>	<u>943,500</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(149,455)	63,682
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	145,112	240,447
Net assets released from restrictions	<u>(154,279)</u>	<u>(276,053)</u>
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(9,167)</u>	<u>(35,606)</u>
CHANGE IN NET ASSETS	(158,622)	28,076
NET ASSETS, beginning of year	<u>679,778</u>	<u>651,702</u>
NET ASSETS, end of year	\$ <u>521,156</u>	\$ <u>679,778</u>

See independent auditor's report and accompanying notes to financial statements

BREAK THE CYCLE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (158,622)	\$ 28,076
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	3,883	5,034
Changes in assets and liabilities:		
Accounts receivable	(45,796)	(56,342)
Prepaid expenses	1,571	(434)
Accounts payable	22,617	18,017
Accrued expenses	<u>23,265</u>	<u>(16,069)</u>
Net cash (used in) operating activities	<u>(153,082)</u>	<u>(21,718)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Mortgage notes receivable	110,052	74,313
Equipment purchases	<u>(8,199)</u>	<u>(2,105)</u>
Net cash provided by investing activities	<u>101,853</u>	<u>72,208</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	57,000	99,100
Payments on capital lease	(1,724)	(1,313)
Payments on Line of Credit	<u>(57,000)</u>	<u>(125,100)</u>
Net cash (used in) provided by financing activities	<u>(1,724)</u>	<u>(27,313)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(52,953)	23,177
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>69,251</u>	<u>46,074</u>
End of year	<u>\$ 16,298</u>	<u>\$ 69,251</u>

See independent auditor's report and accompanying notes to financial statements

BREAK THE CYCLE

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

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 professional 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, 2007 and 2006.

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, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– CONTINUED

Cash and Cash Equivalents:

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 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 double declining balance 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, 2007 AND 2006

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 \$56,376 and \$88,785 during the years ended December 31, 2007 and 2006, respectively, for graphic design, legal services, 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.

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 49% and 8% of revenues were received from government grants for the years ended December 31, 2007 and 2006, respectively. Accounts receivable in the Statement of Financial Position at December 31, 2007 and 2006 from these government grants amounted to \$87,679 and \$2,048, respectively.

BREAK THE CYCLE

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

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, 2007 are due as follows:

	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>Total</u>
Note A principal payments due	\$ 35,117	\$ 237,235	\$ 272,352
Note B principal payments due	-	<u>219,424</u>	<u>219,424</u>
Subtotal	<u>\$ 35,117</u>	<u>\$ 456,659</u>	<u>491,776</u>
Less present value discount at 5.25% per annum			<u>(77,890)</u>
Net mortgage notes receivable			<u>\$ 413,886</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment are comprised of:

	<u>2006</u>	<u>2005</u>
Furniture and equipment	\$ 38,424	\$ 30,072
Less: accumulated depreciation	<u>(26,962)</u>	<u>(23,079)</u>
Property and equipment, net	<u>\$ 11,462</u>	<u>\$ 6,993</u>

Depreciation expense for the years ended December 31, 2007 and 2006 amounted to \$3,883 and \$5,034, respectively.

BREAK THE CYCLE

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 5 - LINE OF CREDIT

Line of credit consisted of a \$50,000 bank revolving line of credit bearing interest at 10% due October 27, 2007. There were no outstanding balances as of December 31, 2007 and 2006, respectively.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2007</u>	<u>2006</u>
Education and outreach programs	\$ <u>21,689</u>	\$ <u>30,856</u>

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Operating Lease

BTC conducts its National office operations in leased facilities under an operating lease expiring in May 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, 2007. The Washington D.C. office entered into a sublease agreement which expires on December 30, 2010.

<u>Year Ending December 31,</u>	<u>National Office</u>	<u>Washington D.C Office</u>	<u>Total</u>
2008	\$ 58,214	\$ 46,090	\$ 104,304
2009	24,600	54,000	78,600
2010	<u>-</u>	<u>54,000</u>	<u>54,000</u>
	\$ <u>82,814</u>	\$ <u>154,090</u>	\$ <u>236,904</u>

Rent expense for 2007 and 2006 totaled \$102,623 and \$101,037, respectively; which includes in-kind donated rent for 2007 and 2006 of \$39,600 and \$39,600, respectively.

BREAK THE CYCLE

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

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.

The following is a schedule by years of future minimum payments required under the lease together with their present value as of December 31, 2007:

<u>Year Ending December 31,</u>	<u>Total</u>
2008	\$ 2,027
Less amount representing interest	<u>153</u>
Present value of minimum lease payments	\$ <u>1,874</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

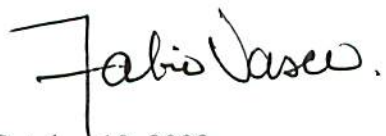
	<u>2007</u>	<u>2006</u>
Cash paid during the year for interest	\$ <u>1,646</u>	\$ <u>3,256</u>

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 \$1,874, at December 31, 2007.

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTAL INFORMATION

To the Board of Directors of
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, 2007 and 2006 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, 2007 and 2006 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, 2007 and 2006 taken as a whole.



October 10, 2008
Los Angeles, California

BREAK THE CYCLE
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2007

	<u>Education & Outreach</u>	<u>Legal Services</u>	<u>Peer Leadership</u>	<u>Policy</u>	<u>Communication & Outreach</u>	<u>Fundraising</u>	<u>Management & General</u>	<u>Total</u>
Accounting/Bookkeeping	6,516	6,364	4,091	2,349	6,743	2,803	1,540	30,406
Advertising/Marketing	12,800	-	-	-	-	-	-	12,800
Auto Mileage Reimbursement	2,196	424	690	363	613	51	4	4,341
Bank Charges/CC Processing Fees	-	-	-	-	-	-	3,136	3,136
Conference Fees/Meeting Expense	389	-	-	-	40	-	-	429
Consulting/Prof Fees	3,246	-	-	-	-	-	3,000	6,246
Continuing Education/Conference	-	-	-	-	-	100	-	100
Depreciation Expense	-	-	-	-	-	-	3,883	3,883
Prof. Dues & Memberships	60	1,843	62	110	60	592	155	2,882
Employee Benefits	10,439	8,738	5,183	2,531	7,969	5,350	2,853	43,063
Travel & Entertainment Meals	394	126	-	-	29	1,228	586	2,363
Equipment	1,109	1,618	703	367	1,227	556	342	5,922
Insurance	2,612	10,381	1,535	585	2,822	1,794	3,938	23,667
Information Tech. & Support	1,185	3,634	102	33	11,047	222	67	16,290
Interest Expense	-	55	-	-	-	-	1,591	1,646
Miscellaneous Expense	-	29	-	-	214	25	3,138	3,406
Supplies & Materials	6,111	1,167	466	286	735	292	239	9,296
Parking	573	1,299	22	106	294	103	20	2,417
PEO Administrative Fee	4,290	3,285	2,053	1,056	2,940	2,068	1,128	16,820
Postage & Delivery	890	596	47	57	1,826	2,074	364	5,854
Printing & Publication Costs	11,725	384	173	47	5,373	3,496	106	21,304
Professional Development	32	30	21	5	60	41	12	201
Rent	21,636	21,062	13,671	7,373	23,414	10,318	5,150	102,624
Salaries & Wages	136,658	104,621	65,347	34,373	92,731	64,500	35,367	533,597
Subgrants	23,245	18,500	-	-	-	-	-	41,745
Subscriptions & Resource Mtls	60	5,403	-	40	240	2,165	55	7,963
Tax & Licenses	-	19	-	-	-	-	984	1,003
Taxes - Payroll	11,399	8,911	5,584	2,899	8,165	5,584	3,045	45,587
Travel	3,730	813	171	823	241	28	1,315	7,121
Utilities-Tel/DSL	6,095	2,389	594	197	2,050	555	266	12,147
Video Production	35,250	-	-	-	-	-	-	35,250
Total Functional Expenses	\$ 302,640	\$201,692	\$ 100,515	\$53,600	\$ 168,833	\$ 103,945	\$ 72,284	\$1,003,509

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

	<u>Education and Outreach</u>	<u>Legal Services</u>	<u>Peer Leadership</u>	<u>Community and Outreach</u>	<u>Policy</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</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	\$ 183,877	\$ 182,598	\$ 141,041	\$ 187,105	\$ 66,601	\$ 63,488	\$ 118,790	\$ 943,500