

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

FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

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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, 2005, and the related statements of activities and changes in net assets and cash flows for the year 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 audit. The financial statements of BTC as of December 31, 2004 were audited by other auditors whose report dated March 7, 2005 expressed an unqualified opinion on those statements.

I conducted my audit 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 audit provides 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, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



March 23, 2007
Los Angeles, California

BREAK THE CYCLE

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2005 AND 2004

ASSETS

	<u>2005</u>	<u>2004</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 46,074	\$ 377,829
Accounts receivables, no allowance necessary	7,396	11,651
Current portion of mortgage notes receivable	46,765	52,196
Prepaid expenses	<u>8,065</u>	<u>13,648</u>
Total current assets	<u>108,300</u>	<u>455,324</u>
PROPERTY AND EQUIPMENT, net	9,922	10,488
MORTGAGE NOTES RECEIVABLE, less current portion	563,165	663,718
MORTGAGE NOTE INTEREST RECEIVABLE	13,411	4,889
DEPOSITS	<u>6,323</u>	<u>6,960</u>
	\$ <u>701,121</u>	\$ <u>1,141,379</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,439	\$ 2,698
Accrued expenses	16,222	3,438
Line of credit	26,000	-
Current portion of capital lease	<u>1,953</u>	<u>-</u>
Total current liabilities	<u>46,614</u>	<u>6,136</u>
CAPITAL LEASE, less current portion	2,805	-
NET ASSETS:		
Unrestricted	582,678	1,086,493
Unrestricted-board designated	2,566	-
Temporarily restricted	<u>66,458</u>	<u>48,750</u>
Total net assets	<u>651,702</u>	<u>1,135,243</u>
	\$ <u>701,121</u>	\$ <u>1,141,379</u>

The accompanying notes are an integral part
of the financial statements

BREAK THE CYCLE
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES, GAINS, AND OTHER SUPPORT:		
Government grants	\$ 103,292	\$ 406,292
Corporate and business	82,765	6,588
Foundations and trusts	62,342	263,927
Non-profit organizations	1,100	7,559
Program service fees	2,375	2,034
Interest and dividend income	50,604	77,336
Special event income, net of expenses of \$108,056 (2005) and \$123,622 (2004)	66,199	115,741
Contributions	74,060	51,223
Planned giving	-	1,172,245
Donated goods and services, at fair value	112,102	112,062
Other	<u>8,137</u>	<u>3,445</u>
Total unrestricted revenues and gains	<u>562,976</u>	<u>2,218,452</u>
NET ASSETS RELEASED FROM RESTRICTIONS:		
Satisfied by payments	<u>223,442</u>	<u>16,000</u>
Total unrestricted revenues, gains and other	<u>786,418</u>	<u>2,234,452</u>
FUNCTIONAL EXPENSES:		
Education and outreach	371,937	576,365
Legal services	366,102	524,313
Peer leadership	209,129	50,756
Management and general	90,217	112,154
Fundraising	<u>250,282</u>	<u>250,060</u>
Total functional expenses	<u>1,287,667</u>	<u>1,513,648</u>
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	(501,249)	720,804
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	241,150	48,750
Net assets released from restrictions	<u>(223,442)</u>	<u>(16,000)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>17,708</u>	<u>32,750</u>
CHANGE IN NET ASSETS	(483,541)	753,554
NET ASSETS, beginning of year	<u>1,135,243</u>	<u>381,689</u>
NET ASSETS, end of year	\$ <u>651,702</u>	\$ <u>1,135,243</u>

The accompanying notes are an integral part
of the financial statements

BREAK THE CYCLE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (483,541)	\$ 753,554
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	5,522	3,627
Changes in assets and liabilities:		
Gain on sale of investment	(2,500)	-
Accounts receivable	4,255	26,818
Prepaid expenses	5,583	(9,179)
Deposits	637	(800)
Accounts payable	(259)	2,698
Accrued expenses	<u>12,784</u>	<u>2,478</u>
Net cash (used in) provided by operating activities	(457,519)	779,196
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investment	2,500	24,973
Mortgage notes receivable	97,462	(715,914)
Equipment purchases	<u>(4,956)</u>	<u>(10,097)</u>
Net cash provided by (used in) investing activities	<u>95,006</u>	<u>(701,038)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	46,000	-
Proceeds from borrowings	4,758	-
Payments on line of credit	<u>(20,000)</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>30,758</u>	<u>-</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(331,755)	78,158
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>377,829</u>	<u>299,671</u>
End of year	\$ <u><u>46,074</u></u>	\$ <u><u>377,829</u></u>

The accompanying notes are an integral part
of the financial statements

BREAK THE CYCLE

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

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 dating and domestic violence. BTC works on both a national and a local level to empower youth to end domestic violence. Its offices in Los Angeles, New York, San Francisco and Washington D.C. provide young people, ages 12 to 22, 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 has 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 has 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, 2005 and 2004.

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, 2005 AND 2004

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 is 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, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES— CONTINUED

Contributed Services and Costs

Contributed services and costs are reflected at 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 \$112,102 and \$112,062 during the years ended December 31, 2005 and 2004, respectively, for graphic design, video and event production costs.

Functional Allocation of Expenses

Costs are charged to education and outreach, legal services, peer leadership, 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 through an adopted Board resolution approved to set aside certain amount of unrestricted funds, such any disbursement of these funds could only be made at the specific direction of the Board. At December 31, 2005 the amount of unspent Board designated funds was \$2,566.

Income Taxes

BTC has 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 13% and 18% of revenues were received from government grants for the years ended December 31, 2005 and 2004. Accounts receivable in the statement of financial position at December 31, 2005 and 2004 from these government grants amounted to \$2,048 and \$7,401, respectively.

BREAK THE CYCLE

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

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 \$160,828, recorded at fair value using a prevailing interest rate of 4.5%. 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, 2005 are due as follows:

	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>Total</u>
Note A principal payments due	\$ 46,765	\$ 4 69,412	\$ 516,177
Note B principal payments due	-	<u>219,424</u>	<u>219,424</u>
Subtotal	<u>\$ 46,765</u>	<u>\$ 6 88,836</u>	<u>735,601</u>
Less present value discount at 4.5% per annum			<u>(125,671)</u>
Net mortgage notes receivable			<u>\$ 609,930</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment are comprised of:

	<u>2005</u>	<u>2004</u>
Furniture and equipment	\$ 27,967	\$ 23,011
Less: accumulated depreciation	<u>(18,045)</u>	<u>(12,523)</u>
Property and equipment, net	<u>\$ 9,922</u>	<u>\$ 10,488</u>

Depreciation expense for the years ended December 31, 2005 and 2004 amounted to \$5,522 and \$3,627, respectively.

BREAK THE CYCLE

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 5 - LINE OF CREDIT

Line of credit consists of a \$50,000 bank revolving line of credit bearing interest at 8.25% due October 27, 2006, of which \$26,000 was outstanding as of December 31, 2005.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2005</u>	<u>2004</u>
Legal services	\$ <u>66,458</u>	\$ <u>48,750</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, 2005:

<u>Year Ending December 31,</u>	<u>Century City</u>	<u>LAX Lease</u>	<u>Total</u>
2006	\$ 17,115	\$ 32,361	\$ 49,476
2007	-	57,060	57,060
2008	-	59,040	59,040
2009	<u>-</u>	<u>24,600</u>	<u>24,600</u>
	\$ <u>17,115</u>	\$ <u>173,061</u>	\$ <u>190,176</u>

Rent expense for 2005 and 2004 totaled \$141,322 and \$139,819, respectively; which includes in-kind donated rent for 2005 and 2004 of \$57,600 and \$63,300, respectively.

BREAK THE CYCLE

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

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, 2005, the asset was capitalized at \$5,000 and accumulated amortization was \$1,000.

The following is a schedule by years of future minimum payments required under the lease together with their present value as of December 31, 2005:

<u>Year Ending December 31,</u>	<u>Total</u>
2006	\$ 1,953
2007	1,953
2008	<u>1,952</u>
Total minimum lease payments	5,858
Less amounts representing interest	<u>1,100</u>
Present value of minimum lease payments	\$ <u><u>4,758</u></u>

NOTE 8 - EMPLOYEE BENEFIT PLAN

BTC sponsors a 403(b) defined contribution plan for 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

Cash paid during the year for interest	\$ <u>558</u>	\$ <u>-</u>
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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 \$4,758, at December 31, 2005.

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTAL INFORMATION

Board of Directors
Break the Cycle
Los Angeles, California

My report on my audit of the basic financial statements of Break the Cycle for the year ended December 31, 2005 appears on page 1. This audit was conducted for the purpose of forming an opinion on such financial statements taken as a whole. The schedule of functional expenses for the year ended December 31, 2005 is presented for purposes of additional analysis and is 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, is fairly stated in all material respects in relation to the basic financial statements for the years ended December 31, 2005 taken as a whole. The supplemental schedule of functional expenses for the year ended December 31, 2004 was audited by other auditors whose report dated March 7, 2005, expressed an unqualified opinion on such schedules.



March 23, 2007
Los Angeles, California

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

	Education and Outreach	Legal Services	Peer Leadership	Management and General	Fundraising	Totals	
						2005	2004
Accounting/bookkeeping	\$ 4,471	\$ 4,488	\$ 3,580	\$ 2,901	\$ 3,748	\$ 19,188	\$ 14,467
Advertising	95	45	-	175	200	515	368
Automobile mileage reimbursement	3,105	2,497	22	486	113	6,223	4,264
Bank charges	-	-	-	3,707	-	3,707	3,788
Conference fees/meetings	-	-	-	60	-	60	2,004
Consulting	5,000	5,000	5,000	8,947	5,000	28,947	12,654
Continuing education/training	133	584	91	1	41	850	183
Depreciation	-	-	-	5,522	0	5,522	3,627
Dues and memberships	1,324	1,558	37	137	324	3,380	2,121
Employee benefits	16,700	18,415	9,842	3,377	12,467	60,801	61,147
Entertainment	352	163	412	462	147	1,536	3,833
Equipment rental	2,148	2,185	1,313	408	1,455	7,509	9,194
Insurance	5,332	13,647	3,190	3,624	3,926	29,719	30,706
Interest expense	-	-	-	558	-	558	-
Office supplies	1,642	1,413	933	198	633	4,819	11,885
Outside labor	-	3,500	-	-	-	3,500	5,832
Parking	392	1,225	128	42	132	1,919	1,698
Payroll processing fees	-	-	-	-	-	-	-
PEO administrative fees	7,115	7,171	4,225	1,327	5,016	24,854	26,515
Postage and delivery	7,625	777	479	159	840	9,880	19,840
Printing and publication	21,022	1,534	504	140	1,641	24,841	32,077
Program materials	248	-	-	-	-	248	372
Public relations	-	-	-	-	664	664	2,300
Rent	42,213	42,745	25,576	5,771	25,017	141,322	139,819
Salaries and wages	225,348	226,732	137,694	44,710	169,990	804,474	1,005,754
Subscriptions	-	-	-	-	-	-	955
Taxes and licenses	124	124	64	187	35	534	709
Taxes - payroll	20,347	20,484	12,372	3,909	14,826	71,938	81,607
Telephone and DSL charges	4,708	4,752	2,863	949	2,391	15,663	18,097
Travel	2,410	978	752	1,088	1,155	6,383	13,794
Board expense	-	-	-	691	-	691	852
Miscellaneous	20	56	-	658	-	734	860
Multimedia	56	56	50	12	39	213	-
Website	7	5,973	2	11	482	6,475	2,326
Total functional expenses	\$ 371,937	\$ 366,102	\$ 209,129	\$ 90,217	\$ 250,282	\$ 1,287,667	\$ 1,513,648

BREAK THE CYCLE
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2004

	<u>Education and Outreach</u>	<u>Legal Services</u>	<u>Peer Leadership</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Totals</u>
Accounting/bookkeeping	\$ -	-	-	\$ 14,467	-	\$ 14,467
Advertising	76	62	-	178	52	368
Automobile mileage reimbursement	2,695	1,267	9	170	123	4,264
Bank charges	112	81	-	1,658	1,937	3,788
Conference fees/meetings	867	767	-	110	260	2,004
Consulting	3,930	3,252	-	3,023	2,449	12,654
Continuing education/training	65	47	-	5	66	183
Depreciation	-	-	-	3,627	-	3,627
Dues and memberships	698	671	-	332	420	2,121
Employee benefits	21,693	25,486	1,569	2,695	9,704	61,147
Entertainment	981	679	13	1,387	773	3,833
Equipment rental	2,934	2,769	515	954	2,022	9,194
Insurance	9,233	14,631	1,018	2,910	2,914	30,706
Office supplies	4,239	3,507	1,002	654	2,483	11,885
Outside labor	3,085	1,100	-	594	1,053	5,832
Parking	522	794	15	141	226	1,698
PEO administrative fees	10,372	9,921	1,595	959	3,668	26,515
Postage and delivery	12,296	1,640	784	920	4,200	19,840
Printing and publication	18,069	4,233	821	5,448	3,506	32,077
Program materials	166	166	-	40	-	372
Public relations	-	-	-	-	2,300	2,300
Rent	44,508	44,679	9,164	15,221	26,247	139,819
Salaries and wages	396,085	368,469	28,162	48,456	164,582	1,005,754
Subscriptions	118	620	-	12	205	955
Taxes and licenses	89	89	-	470	61	709
Taxes -- payroll	31,543	29,458	4,653	3,207	12,746	81,607
Telephone and DSL charges	6,849	5,605	991	1,590	3,062	18,097
Travel	4,201	2,884	136	2,618	3,955	13,794
Volunteer	137	76	309	-	330	852
Miscellaneous	346	129	-	191	194	860
Website	456	1,231	-	117	522	2,326
Total functional expenses	<u>\$ 576,365</u>	<u>\$ 524,313</u>	<u>\$ 50,756</u>	<u>\$ 112,154</u>	<u>\$ 250,060</u>	<u>\$ 1,513,648</u>