

July 13, 2005

To Whom It May Concern:

Attached is a copy of Break the Cycle's Audited Financial Statements for fiscal year 2004.

Please note the following: Break the Cycle received a generous gift from the estate of Clarice Silk, consisting of two mortgage notes (as described in footnote 3 in the audited financial statements). One of the notes will not be collected until March 27, 2011; the other note pays quarterly interest and dividends with the balance due March 11, 2011. The mandatory minimum quarterly payment on the note is approximately \$13,500; however, we have received \$101,266.36 to date.

Generally Accepted Accounting Principals have required us to recognize the entire amount of the notes in the current year as recorded in the "Planned Giving" line item of the Statements of Activities and Changes in Net Assets. In the future, any principal payments received on the note that pays quarterly will be applied against the Mortgage Note Receivable in the Statement of Financial Position.

If you should have any additional questions, please do not hesitate to contact our auditor, whose information is included herein.

Sincerely,



Jessica Aronoff  
National Executive Director

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2004 and 2003**

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
Break the Cycle  
Los Angeles, California

We 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, 2004 and 2003, 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. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide 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 BTC as of December 31, 2004 and 2003, 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.

*VELAH Group LLP.*

March 7, 2005  
Los Angeles, California

**BREAK THE CYCLE**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2004 AND 2003**

ASSETS

	<u>2004</u>	<u>2003</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 377,829	\$ 299,671
Investments	-	24,973
Accounts receivables, no allowance necessary	16,540	43,358
Current portion of mortgage notes receivable	52,196	-
Prepaid expenses	<u>13,648</u>	<u>4,469</u>
Total current assets	<u>460,213</u>	<u>372,471</u>
 PROPERTY AND EQUIPMENT, net	 10,488	 4,018
 MORTGAGE NOTES RECEIVABLE, less current portion	 663,718	 -
 DEPOSITS	 <u>6,960</u>	 <u>6,160</u>
	 \$ <u>1,141,379</u>	 \$ <u>382,649</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 2,698	\$ -
Accrued expenses	<u>3,438</u>	<u>960</u>
Total current liabilities	<u>6,136</u>	<u>960</u>
 <b>NET ASSETS:</b>		
Unrestricted	1,086,493	365,689
Temporarily restricted	<u>48,750</u>	<u>16,000</u>
Total net assets	<u>1,135,243</u>	<u>381,689</u>
	 \$ <u>1,141,379</u>	 \$ <u>382,649</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, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES, GAINS, AND OTHER SUPPORT:		
Government grants	\$ 406,292	\$ 315,260
Corporate and business	6,588	51,030
Foundations and trusts	263,927	217,235
Non-profit organizations	7,559	18,149
Program service fees	2,034	4,407
Interest and dividend income	77,336	1,272
Special event income, net of expenses of \$123,622 (2004) and \$36,717 (2003)	115,741	156,681
Contributions	51,223	115,088
Planned giving	1,172,245	-
Donated goods and services, at fair value	112,062	42,000
Other	<u>3,445</u>	<u>18,024</u>
Total unrestricted revenues and gains	<u>2,218,452</u>	<u>939,146</u>
NET ASSETS RELEASED FROM RESTRICTIONS:		
Satisfied by payments	<u>16,000</u>	<u>9,595</u>
Total unrestricted revenues, gains and other	<u>2,234,452</u>	<u>948,741</u>
FUNCTIONAL EXPENSES:		
Education and outreach	576,365	332,988
Legal services	524,313	285,440
Peer leadership	50,756	-
Management and general	112,154	53,420
Fundraising	<u>250,060</u>	<u>217,292</u>
Total functional expenses	<u>1,513,648</u>	<u>889,140</u>
INCREASE IN UNRESTRICTED NET ASSETS	720,804	59,601
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	48,750	16,000
Net assets released from restrictions	<u>(16,000)</u>	<u>(9,595)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>32,750</u>	<u>6,405</u>
CHANGE IN NET ASSETS	753,554	66,006
NET ASSETS, beginning of year	<u>381,689</u>	<u>315,683</u>
NET ASSETS, end of year	\$ <u>1,135,243</u>	\$ <u>381,689</u>

The accompanying notes are an integral part  
of the financial statements

# BREAK THE CYCLE

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 753,554	\$ 66,006
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,627	2,232
Changes in assets and liabilities:		
Accounts receivable	26,818	(29,659)
Prepaid expenses	(9,179)	(4,469)
Deposits	(800)	-
Accounts payable	2,698	960
Accrued expenses	<u>2,478</u>	<u>-</u>
Net cash provided by operating activities	779,196	35,070
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investment		(24,973)
Sale of investment	24,973	-
Mortgage notes receivable	(715,914)	-
Equipment purchases	<u>(10,097)</u>	<u>(1,335)</u>
Net cash provided by (used in) investing activities	<u>(701,038)</u>	<u>(26,308)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	78,158	8,762
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>299,671</u>	<u>290,909</u>
End of year	\$ <u><u>377,829</u></u>	\$ <u><u>299,671</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, 2004 and 2003

#### 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 Organization.*” 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, 2004 and 2003.

##### 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, 2004 and 2003

##### 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, 2004 and 2003**

##### **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 \$112,062 and \$42,000 during the years ended December 31, 2004 and 2003, 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.

###### Board Designated Funds

The Board of Directors may, from time to time, elect that certain funds be set aside as Board designated funds, which may not be spent without approval by the Board. No such funds were set aside during the years ended December 31, 2004 and 2003.

###### 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 18% and 34% of revenues were received from government grants for the years ended December 31, 2004 and 2003. Accounts receivable in the statement of financial position at December 31, 2004 and 2003 from these government grants amounted to \$16,540 and \$43,358, respectively.

**BREAK THE CYCLE**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2004 and 2003**

**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 as of December 31, 2004 in the amount of \$555,086; 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 as of December 31, 2004 in the face amount of \$219,424, 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, 2004 are due as follows:

	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Note A principal payments due	\$ 52,196	\$ 87,420	\$ 415,470	\$ 555,086
Note B principal payments due	-	-	<u>219,424</u>	<u>219,424</u>
Subtotal	<u>\$ 52,196</u>	<u>\$ 87,420</u>	<u>\$ 634,894</u>	<u>774,510</u>
Less present value discount at 4.5% per annum				<u>(58,596)</u>
Net mortgage notes receivable				<u>\$ 715,914</u>

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment are comprised of:

	<u>2004</u>	<u>2003</u>
Furniture and equipment	\$ 23,011	\$ 12,914
Less: accumulated depreciation	<u>12,523</u>	<u>8,896</u>
Property and equipment, net	<u>\$ 10,488</u>	<u>\$ 4,018</u>

Depreciation expense for the years ended December 31, 2004 and 2003 amounted to \$3,627 and \$2,232, respectively.

**BREAK THE CYCLE**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2004 and 2003**

**NOTE 5 - LINE OF CREDIT**

Line of credit consists of a \$50,000 bank revolving line of credit bearing interest at 6.50% due October 27, 2005. No amount was outstanding as of December 31, 2004 and 2003.

**NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS**

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

	<u>2004</u>	<u>2003</u>
Legal services	\$ <u>48,750</u>	\$ <u>16,000</u>

**NOTE 7 - COMMITMENTS AND CONTINGENCIES**

BTC conducts its National and Los Angeles office operations in leased facilities under an operating lease expiring in March 2006. 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, 2004:

<u>Year Ending December 31,</u>	<u>Amount</u>
2005	\$ 68,460
2006	<u>17,115</u>
	\$ <u>85,575</u>

Rent paid for 2004 and 2003 totaled \$139,819 and \$70,042, respectively.

**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.

INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTAL INFORMATION

Board of Directors  
Break the Cycle  
Los Angeles, California

Our report on our audits of the basic financial statements of Break the Cycle for the years ended December 31, 2004 and 2003, appears on page 1. Those audits were 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, 2004 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 our opinion, is fairly stated in all material respects in relation to the basic financial statements for the years ended December 31, 2004 and 2003, taken as a whole.

*JECUAT Group LLP.*

March 7, 2005  
Los Angeles, California

**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>2004</u>	<u>Totals</u>	<u>2003</u>
Advertising	\$ 76	\$ 62	\$ -	\$ 178	\$ 52	\$ 368	\$	\$ 150
Automobile mileage reimbursement	2,695	1,267	9	170	123	4,264		4,937
Bank charges	112	81	-	1,658	1,937	3,788		3,427
Conference fees/meetings	867	767	-	110	260	2,004		80
Consulting	3,930	3,252	-	17,490	2,449	27,121		35,622
Continuing education/training	65	47	-	5	66	183		390
Depreciation	-	-	-	3,627	-	3,627		2,232
Dues and memberships	698	671	-	332	420	2,121		2,646
Employee benefits	21,693	25,486	1,569	2,695	9,704	61,147		38,410
Entertainment	981	679	13	1,387	773	3,833		1,148
Equipment rental	2,934	2,769	515	954	2,022	9,194		4,418
Insurance	9,233	14,631	1,018	2,910	2,914	30,706		14,333
Office supplies	4,239	3,507	1,002	654	2,483	11,885		4,073
Outside labor	3,085	1,100	-	594	1,053	5,832		1,150
Parking	522	794	15	141	226	1,698		1,193
Payroll processing fees	-	-	-	-	-	-		960
PEO administrative fees	10,372	9,921	1,595	959	3,668	26,515		11,258
Postage and delivery	12,296	1,640	784	920	4,200	19,840		17,333
Printing and publication	18,069	4,233	821	5,448	3,506	32,077		26,973
Program materials	166	166	-	40	-	372		604
Public relations	-	-	-	-	2,300	2,300		-
Rent	44,508	44,679	9,164	15,221	26,247	139,819		70,042
Salaries and wages	396,085	368,469	28,162	48,456	164,582	1,005,754		575,202
Subscriptions	118	620	-	12	205	955		384
Taxes and licenses	89	89	-	470	61	709		35
Taxes -- payroll	31,543	29,458	4,653	3,207	12,746	81,607		53,781
Telephone and DSL charges	6,849	5,605	991	1,590	3,062	18,097		6,534
Travel	4,201	2,884	136	2,618	3,955	13,794		7,733
Volunteer	137	76	309	-	330	852		1,010
Miscellaneous	346	129	-	191	194	860		2,208
Website	456	1,231	-	117	522	2,326		874
<b>Total functional expenses</b>	<b>\$ 576,365</b>	<b>\$ 524,313</b>	<b>\$ 50,756</b>	<b>\$ 112,154</b>	<b>\$ 250,060</b>	<b>\$ 1,513,648</b>		<b>\$ 889,140</b>