

LOVE 146, INC.
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

**Love 146, Inc.
December 31, 2008
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1741 Ellington Road | 2440 Whitney Avenue
South Windsor, CT 06074 | Hamden, CT 06518
Tel: (860) 644-5825 | Tel: (203) 288-4144
Fax: (860) 644-5731 | Fax: (203) 248-9205

Certified Public Accountants


INDEPENDENT AUDITOR'S REPORT

Board of Directors
Love 146, Inc.
New Haven, Connecticut

We have audited the accompanying statements of financial position of Love 146, Inc. as of December 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Love 146, Inc. as of December 31, 2007 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 26, 2008.

We conducted our audit in accordance with generally accepted auditing standards. 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 Love 146, Inc. as of December 31, 2008 and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.


Henry, Raymond & Thompson, LLC
Hamden, Connecticut

May 6, 2009

LOVE 146, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2008

Assets

Current Assets

Cash and cash equivalents	\$ 275,450
Contributions receivable	82,132
Prepaid expenses and other current assets	3,789
Total Current Assets	<u>361,371</u>

Furniture, equipment and leasehold improvements, net	18,402
Other non-current assets	3,400

Total Assets	<u><u>383,173</u></u>
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Liabilities and Net Assets

Current Liabilities

Accounts payable	15,869
Accrued expenses	11,569
Note payable, current portion	2,010
Capital lease obligation, current portion	2,598
Total current liabilities	<u>32,046</u>

Note payable, less current portion	697
Capital lease obligation, less current portion	1,423

Total Liabilities	<u>34,166</u>
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Net Assets

Unrestricted net assets	<u>349,007</u>
Total net assets	<u>349,007</u>

Total Liabilities and Net Assets	<u><u>\$ 383,173</u></u>
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The accompanying notes are an integral part of these financial statements

LOVE 146, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2008</u>
Revenue and Support				
Contributions and grants	\$ 1,318,108	\$ -	\$ -	\$ 1,318,108
Special events	97,860	-	-	97,860
Donated services	4,000	-	-	4,000
Other	742	-	-	742
Net assets released from restrictions	34,675	(34,675)	-	-
Total revenue and support	<u>1,455,385</u>	<u>(34,675)</u>	<u>-</u>	<u>1,420,710</u>
Expenses				
Program services	868,924	-	-	868,924
Management and general	180,695	-	-	180,695
Fundraising	124,175	-	-	124,175
Total expenses	<u>1,173,794</u>	<u>-</u>	<u>-</u>	<u>1,173,794</u>
Increase (decrease) in net assets	281,591	(34,675)	-	246,916
Net assets, beginning of period	<u>67,416</u>	<u>34,675</u>	<u>-</u>	<u>102,091</u>
Net assets, end of period	<u>\$ 349,007</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 349,007</u>

The accompanying notes are an integral part of these financial statements

LOVE 146, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Grant expense	\$ 340,861	\$ -	\$ -	\$ 340,861
Salaries, employee benefits and related expenses	271,230	83,974	66,262	421,466
Contract labor	106,964	-	28,250	135,214
Rent, utilities, parking	27,702	32,500	-	60,202
Travel and related expenses	85,685	5,068	13,605	104,358
Professional fees	7,199	29,043	2,555	38,797
Supplies	3,265	4,112	127	7,504
Printing and reproduction	4,056	2,676	7,913	14,645
Depreciation and amortization	11,854	1,382	-	13,236
Bank fees	9,142	7,017	155	16,314
Postage	966	3,756	1,308	6,030
Insurance	-	5,477	-	5,477
Donated services	-	-	4,000	4,000
Other	-	5,690	-	5,690
	<u>\$ 868,924</u>	<u>\$ 180,695</u>	<u>\$ 124,175</u>	<u>\$ 1,173,794</u>

The accompanying notes are an integral part of these financial statements.

LOVE 146, INC.
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2008

Cash flows From operating activities

Increase in net assets	\$ 246,916
Adjustments to reconcile change in net assets	
Depreciation	13,236
Changes in operating assets and liabilities:	
Contributions receivable	(83,545)
Prepaid expense	254
Accounts payable	(6,700)
Accrued expenses	11,569
Net cash provided by operating activities	<u>181,730</u>

Cash flows from investing activities

Purchase of Equipment	<u>(3,539)</u>
Net cash used in investing activities	<u>(3,539)</u>

Cash flows from financing activities

Payments on notes payable	(1,893)
Payments on capital leases	(1,883)
Net cash used in financing activities	<u>(3,776)</u>

Net increase in cash	174,415
Cash at beginning of period	<u>101,035</u>
Cash at end of period	<u>\$ 275,450</u>

Supplementary Disclosures:

Income taxes paid	\$ -
Interest paid	\$ 877

The accompanying notes are an integral part of these financial statements.

Love 146, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2008

NOTE 1 – Organization and Nature of Activities

In September 2002, LOVE146 Co-Founders went on an exploratory trip to SE Asia to determine how they could serve in the fight against child sex trafficking. In brothels, they saw young children being sold for sex. In safehomes, they witnessed the miracle of restoration as they sang and danced with survivors. The goal of this and subsequent trips was not to “reinvent the wheel” but to find out where the greatest needs were and how they could be most helpful in filling those needs. After 18 months of research, networking and other foundational work, LOVE146 became an official Public Charity in March of 2004 under the name of Justice for Children Intl. In October 2007, JFCI became known as "LOVE146".

LOVE146, Inc. works toward the abolition of child sex trafficking and exploitation prevention and aftercare. LOVE146, Inc. trains aftercare workers, multiplies safehomes, aids socioeconomic development programs in high-risk communities and amplifies the voice of these victims of modern-day slavery. Major programs include educational programs; training programs aimed at developing knowledge and skills for working with victims of Child Sex Trafficking and Exploitation (CSTE); working to help CSTE survivors by facilitating restorative experiences, teaching life skills, and providing help for a better future; and safehome programs which provide care for survivors of CSTE.

Love146 has developed a USA prevention strategy that focuses on advocacy to prevent child sex slavery and exploitation. We seek to advocate on behalf of as well as with victims, survivors, and those at-risk. Through detailed research and collaboration, Love146 contributes to the modern-day abolitionist movement in the USA by emphasizing coalition building and partnerships as well as innovative, creative advocacy strategies.

The Organization operates programs in foreign countries and makes grants to Organizations based in foreign countries. These countries have included, but are not limited to, the Philippines, Thailand and Cambodia. Unforeseen political, economic or governmental changes in these countries could have an effect on the Organization's future activities.

NOTE 2 - Summary of Significant Accounting Policies

Public Support and Revenue

Contributions are generally available for unrestricted use in the related year unless specifically restricted by the donor. Unconditional promises to give are recorded as received. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. We do not generally have unconditional promises to give due in subsequent years but when they occur, they are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. Promises to give are received from various contributors and not necessarily related to any specific event. An allowance for uncollectable promises is provided based on management's evaluation of potential uncollectable promises receivable at year-end. As of the year ended December 31, 2008, there were no promises to give.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor

Love 146, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2008

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. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

We have not received permanently restricted contributions to-date and do not have permanently restricted net assets.

Contributions of donated tangible assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

We consider all liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude permanently restricted cash and cash equivalents.

During 2008, the United States Congress has temporarily increased FDIC deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2009. As of December 31, 2008 Love 146, Inc.'s balance of cash and cash equivalents at a financial banking institution exceed the federally insured limit of \$250,000. These balances fluctuate greatly during the year and can exceed this \$250,000 limit at any time. Management monitors regularly the financial condition of the banking institution, along with their balances in cash and cash equivalents, and tries to keep this potential risk to a minimum.

Contributions Receivable

Contributions receivable comprise of short-term contributions by the donor that have not been remitted to us as of the end of the year. An allowance for uncollectable contributions receivable is recorded based on management's evaluation of potential uncollectable receivables throughout the year.

Love 146, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2008

Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are capitalized at cost. It is our policy to capitalize expenditures for these items in excess of \$500. Lesser amounts are expensed. Furniture and office equipment are being depreciated over estimated useful lives of three to seven years using the straight-line method. Leasehold improvements are being amortized over the shorter of the lease term or useful life using the straight-line method.

Concentrations of Major Contributors

For the year ended December 31, 2008, our three largest contributors accounted for 14%, 10% and 5%, individually, of our contributions and grants.

Grant Contributions

We have received conditional grant funding from Spring Harvest Charitable Trust totaling \$138,535 during the year ended December 31, 2008. The grant allows for the reimbursement of previously agreed upon expenditures related to the construction of a safehouse in the Philippines. These contributions are recorded when received and are included in unrestricted contributions and grants in the Statement of Activities for the year ended December 31, 2008.

Compensated Absences

Employees are entitled to paid vacation and sick days depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future paid sick days and time off. Accordingly, no liability for these amounts has been recorded in the accompanying financial statements. Company policy is to recognize the cost of compensated absences when actually paid to employees.

Fair Value of Financial Instruments

The carrying amounts reflected in the statement of financial position for cash and cash equivalents, contributions receivables, other assets, accounts payable and accrued expenses approximate fair value due to their short-term maturities. Our notes payable and capital lease obligations are carried at historical cost (see Note 4, 5 and 7 for fair value information)

Income Taxes

Love 146, Inc. is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. For income tax purposes, we are not classified as a private foundation and we are exempt from state income taxes under Connecticut law.

Love 146, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2008

NOTE 3 - Furniture, Equipment and Leasehold Improvements

A summary of furniture, equipment and leasehold improvements for the year ended December 31, 2008 are as follows:

Furniture and equipment	\$	39,164
Leasehold improvements		5,801
		44,965
Less accumulated depreciation and amortization		(26,563)
Total	\$	18,402

NOTE 4 – Note Payable

On May 1, 2007, we entered into a three-year note payable with our Landlord to fund leasehold improvements. The original amount of the note was \$5,801 and is payable in equal installments of principal and interest over the term of the loan. The note bears interest at 6% and is secured by corporate assets. Interest expense on the note was \$225 for the year ended December 31, 2008. The note payable does not require covenants related to our financial performance.

NOTE 5 – Leases

Capital Leases

We lease office equipment under a capital lease agreement expiring in 2010. The asset and liabilities under capital leases are recorded at the lesser of the present value of the minimum lease payments or the fair value of the asset. The asset is amortized over the lower of their related lease terms or their estimated useful lives. Amortization of asset under capital lease is included in depreciation expense. As of December 31, 2008, the cost of equipment under capital lease is \$7,366 and accumulated amortization is \$4,092. The weighted-average interest rate on the capital leases is approximately 13.1%.

Minimum future lease payments under capital lease as of December 31, 2008 are:

<u>Year</u>		
2009	\$	2,952
2010		1,476
		4,428
Less: Amount representing interest		407
Present value of minimum lease payments	\$	4,021

Operating Lease

We lease office space in New Haven, Connecticut under a three-year noncancelable operating lease expiring April 30, 2010. The lease requires monthly rent payments of \$1,700.

Love 146, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2008

Minimum future lease payments under operating lease as of December 31, 2008 are:

<u>Year</u>	
2009	\$ 20,400
2010	6,800
	<u>\$ 27,200</u>

Total rent expense for the year ended December 31, 2008 was \$22,517.

NOTE 6 – Temporarily Restricted Net Assets

Temporarily restricted net assets throughout the year were available for the specific purpose of finalizing the construction of a safehouse in the Philippines. As of December 31, 2008, there were no temporarily restricted net assets.

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restriction specified by the donors. During the year ended December 31, 2008, temporarily restricted net assets for the construction of the safehouse in the Philippines totaling \$34,675 were released from restriction.

NOTE 7 – Related Party

On January 24, 2008, Love 146, Inc. (US) entered into an Association Agreement (agreement) with a related party in the Philippines, Love 146, Inc. (Philippines) to support their mission in the area. The agreement requires, among other things, that Love 146, Inc.-Philippines maintain a board of directors and executive director whose appointments must all be ratified by Love 146, Inc. (US). The agreement also requires that to ensure coordination with Love 146, Inc.-US, Love 146, Inc.-Philippines' annual proposed budget must be approved by Love 146, Inc.-US prior to adoption. In addition, Love 146, Inc.-Philippines shall provide monthly financial reports and quarterly audited financial statements to Love 146, Inc.-US.

The initial term of the agreement is five years and has an automatic five-year renewal unless either party provides notice not to renew. The agreement may also terminate if other occurrences occur such as the dissolution of either party, either party submits written cancellation within a certain period of time, loss of tax exempt status by either party or if one party engages in any act that is (1) in violation of the agreement; inconsistent with the ministry of exempt status of any party to this agreement; or (3) which would subject any party to public disrepute.

In addition, the two parties entered into a Trademark License Agreement which grants a non-transferable, exclusive, royalty free license to Love 146, Inc.-Philippines to use Trademarks registered with the United States Patent and Trademark Office by Love 146, Inc.-US, as long as the Trademark License Agreement and Association Agreement remain in place.

During the year ended December 31, 2008, we provided Love 146, Inc. - Philippians with \$335,254 in support to fund operations and construct additional facilities to support our mutual mission.

Love 146, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2008

NOTE 8 – Contributions

Contributions Receivable

Contributions receivable totaled \$82,132 at December 31, 2008 and are due within one year.

Contributions receivable primarily comprise on-line contributions contributed through credit card transactions by the donor that have not been remitted to us as of the year ended December 31, 2008. In addition, contributions receivable also include short-term pledges that have not been received as of year-end. As of the year ended December 31, 2008, management concluded all contributions receivable were collectable and did not establish an allowance.

Donated Goods and Services

We received donated services and facilities totaling \$4,000 during the year ended December 31, 2008 in support of our annual banquet fundraising event. The donated services partially defray certain costs that we would otherwise incur for program services, fundraising and management and general expenditures. The donated services and facilities are included in the statement of activities under revenue from donated services.

We also receive donated services from other contributors and volunteers that are not measurable and, therefore, are excluded from the financial statements.

Special Events

We conducted one special event during the year ended December 31, 2008 that generated \$97,860. Gross revenue from the event includes the amount paid by the donor for the stated fair market value of the services received by the donor at the event totaling \$22,860. All costs related to the banquet are included in fund raising costs in the statement of activities.

NOTE 9 – Fair Value of Financial Instruments

Fair Value Measurements

Statement of Financial Accounting Standard (SFAS) 157 establishes a valuation hierarchy for disclosure of the inputs to the valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value.

Love 146, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2008

The following table presents information about our assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2008, and indicates the fair value hierarchy of the valuation techniques we utilized to determine such fair value:

<u>Description</u>	<u>Fair Value Measurement at December 31, 2008</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income investments:				
Cash equivalents Money market funds	\$ 275,450	\$ 275,450	\$ -	\$ -