

AUDITED FINANCIAL STATEMENTS

LOVE146, Inc.

NEW HAVEN, CONNECTICUT

YEARS ENDED JUNE 30, 2011 AND 2010

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LOVE146, Inc.
CONTENTS

Audited Financial Statements:	<u>Page</u>
Independent Auditors' Report.....	4
Statement of Financial Position.....	5
Statement of Activities.....	6
Statement of Functional Expenses.....	8
Statement of Cash Flows.....	10
Notes to Financial Statements.....	11

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INDEPENDENT AUDITORS' REPORT

LOVE146, Inc.
132 Temple Street
New Haven, Connecticut 06510

We have audited the accompanying statement of financial position of LOVE146, Inc. (a non-profit organization) as of June 30, 2011, and the related statements of activities, functional expense and cash flow 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 LOVE146, Inc., as of June 30, 2010, were audited by another auditor whose report dated November 8, 2010, expressed an unqualified opinion on those statements.

We conducted our audit 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 the 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 LOVE146, Inc. as of June 30, 2011, 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.



Michaud and Accavallo
Certified Public Accountants, LLC

August 31, 2011

LOVE146, INC.
STATEMENT OF FINANCIAL POSITION

	June 30,	
	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 228,561	\$ 392,442
Contributions receivable, net of allowance of \$860 and \$4,245	53,841	25,037
Inventories	3,598	3,457
Other current assets	5,769	3,000
TOTAL CURRENT ASSETS	291,769	423,936
EQUIPMENT AND IMPROVEMENTS		
Furniture, fixtures and equipment	60,332	58,603
Leasehold improvements	5,801	5,801
	66,133	64,404
Less: Accumulated depreciation and amortization	(55,831)	(48,452)
TOTAL EQUIPMENT AND IMPROVEMENTS	10,302	15,952
OTHER ASSET-deposit	3,400	3,400
TOTAL ASSETS	\$ 305,471	\$ 443,288
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payables	\$ 2,076	\$ 12,599
Accrued expenses	34,072	43,097
TOTAL CURRENT LIABILITIES	36,148	55,696
NET ASSETS		
Unrestricted	115,537	349,216
Temporarily restricted	153,786	38,376
TOTAL NET ASSETS	269,323	387,592
TOTAL LIABILITIES AND NET ASSETS	\$ 305,471	\$ 443,288

See notes to financial statements

LOVE146, Inc.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
SUPPORT AND REVENUES				
Contributions	\$ 2,075,321	\$ 153,786	\$ -	\$ 2,229,107
Promotional sales, net	25,755	-	-	25,755
Interest	209	-	-	209
Net assets released from restriction	<u>38,376</u>	<u>(38,376)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	2,139,661	115,410	-	2,255,071
EXPENSES				
Program	1,709,211	-	-	1,709,211
Management and general	345,095	-	-	345,095
Fundraising	<u>319,034</u>	<u>-</u>	<u>-</u>	<u>319,034</u>
TOTAL EXPENSES	2,373,340	-	-	2,373,340
DECREASE (INCREASE) IN NET ASSETS	(233,679)	115,410	-	(118,269)
NET ASSETS, BEGINNING OF YEAR	<u>349,216</u>	<u>38,376</u>	<u>-</u>	<u>387,592</u>
NET ASSETS, END OF YEAR	<u>\$ 115,537</u>	<u>\$ 153,786</u>	<u>\$ -</u>	<u>\$ 269,323</u>

See notes to financial statements

LOVE146, Inc.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
SUPPORT AND REVENUES				
Contributions	\$ 1,788,585	\$ 38,376	\$ -	\$ 1,826,961
Special events	37,270	-	-	37,270
Promotional sales, net	6,999	-	-	6,999
Interest	1,285	-	-	1,285
Net assets released from restriction	-	-	-	-
TOTAL SUPPORT AND REVENUES	<u>1,834,139</u>	<u>38,376</u>	<u>-</u>	<u>1,872,515</u>
EXPENSES				
Program	1,378,219	-	-	1,378,219
Management and general	254,847	-	-	254,847
Fundraising	295,718	-	-	295,718
TOTAL EXPENSES	<u>1,928,784</u>	<u>-</u>	<u>-</u>	<u>1,928,784</u>
(DECREASE) INCREASE IN NET ASSETS	(94,645)	38,376	-	(56,269)
NET ASSETS, BEGINNING OF YEAR	<u>443,861</u>	<u>-</u>	<u>-</u>	<u>443,861</u>
NET ASSETS, END OF YEAR	<u>\$ 349,216</u>	<u>\$ 38,376</u>	<u>\$ -</u>	<u>\$ 387,592</u>

See notes to financial statements

LOVE146, Inc.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2011

	Program	Management and General	Fund Raising	Total Functional Expense
Grant expense	\$ 506,989	\$ -	\$ -	\$ 506,989
Salaries	445,035	190,268	193,606	828,909
Employee benefits	52,120	13,914	20,179	86,213
Payroll taxes	43,244	11,089	16,331	70,664
Contract labor	375,921	3,797	7,843	387,561
Travel and related expenses	172,788	6,562	9,082	188,432
Professional fees	38,467	36,967	19,584	95,018
Occupancy	27,911	13,994	10,446	52,351
Bank fees	3,985	41,955	1,485	47,425
Printing and reproduction	2,233	1,933	20,995	25,161
Postage	861	2,612	16,038	19,511
Supplies	3,296	6,357	1,901	11,554
Insurance	4,675	6,442	283	11,400
Telephone	4,582	3,134	1,055	8,771
Depreciation expense	5,165	2,214	-	7,379
Office equipment	1,817	1,598	206	3,621
Staff development	1,023	2,180	-	3,203
Dues and subscriptions	1,288	79	-	1,367
Other	17,811	-	-	17,811
TOTAL FUNCTIONAL EXPENSE	<u>\$ 1,709,211</u>	<u>\$ 345,095</u>	<u>\$ 319,034</u>	<u>\$ 2,373,340</u>

See notes to financial statements

LOVE146, Inc.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2010

	Program	Management and General	Fund Raising	Total Functional Expense
Grant expense	\$ 572,088	\$ -	\$ -	\$ 572,088
Salaries	290,382	77,517	124,274	492,173
Employee benefits	37,318	9,928	15,909	63,155
Payroll taxes	24,151	6,447	10,335	40,933
Contract labor	287,496	-	91,236	378,732
Travel and related expenses	100,559	5,584	15,675	121,818
Professional fees	12,715	35,893	15,045	63,653
Occupancy	5,182	47,205	60	52,447
Bank fees	521	27,085	120	27,726
Printing and reproduction	3,440	8,015	13,162	24,617
Staff development	-	14,887	-	14,887
Postage	1,465	5,393	7,650	14,508
Depreciation expense	10,019	4,294	-	14,313
Supplies	2,905	6,658	2,038	11,601
Insurance	2,780	4,781	-	7,561
Other	27,198	1,160	214	28,572
TOTAL FUNCTIONAL EXPENSE	<u>\$ 1,378,219</u>	<u>\$ 254,847</u>	<u>\$ 295,718</u>	<u>\$ 1,928,784</u>

See notes to financial statements

LOVE146, Inc.
STATEMENT OF CASH FLOWS

	<u>Years Ended June 30,</u>	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (118,269)	\$ (56,269)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	7,379	14,313
(Increase) Decrease in operating assets:		
Contribution receivable	(28,804)	(7,964)
Inventories	(141)	(3,457)
Other current assets	(2,769)	765
Increase (Decrease) in operating liabilities:		
Accounts payable	(10,523)	10,605
Accrued expenses	(9,025)	31,193
NET CASH USED IN OPERATING ACTIVITIES	(162,152)	(10,814)
 CASH FLOWS FROM INVESTING ACTIVITIES—purchase of property and equipment	(1,729)	(12,267)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments on notes payable	-	(1,717)
Payments on capital leases	-	(2,761)
NET CASH USED IN FINANCING ACTIVITIES	-	(4,478)
NET CHANGE IN CASH	(163,881)	(27,559)
Cash and cash equivalents at beginning of year	392,442	420,001
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 228,561	\$ 392,442
 Supplemental disclosure of cash flow information:		
Cash paid during the year for interest expense	\$ -	\$ 291

See notes to financial statements

LOVE146, Inc.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

Note 1- Summary of Significant Accounting Policies

In September 2002, LOVE146, Inc.(Organization) 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 safe homes, 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 organizational work, LOVE146, Inc. became an official public charity in March of 2004 under the name of Justice for Children, Inc. (JFCI). In October 2007, JFCI became known as LOVE146, Inc. and is incorporated in the State of Connecticut.

LOVE146, Inc. works toward the abolition of child sex trafficking and exploitation prevention and aftercare. LOVE146, Inc. trains aftercare workers, multiplies safe homes, 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 safe home programs which provide care for survivors of CSTE.

LOVE146, Inc. has developed a USA prevention strategy that focuses on advocacy to prevent child sex slavery and exploitation. The Organization seeks to advocate on behalf of as well as with victims, survivors, and those at-risk. Through detailed research and collaboration, LOVE146, Inc. 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 the United States and foreign countries and makes grants to Organizations' based in foreign countries. These countries have included, but are not limited to, the Philippines, Thailand, Cambodia, India, United Kingdom and Moldova. Unforeseen political, economic or governmental changes in these countries could have an effect on the Organization's future activities. Total grant expense to organizations worldwide during the years ended June 30, 2011 and 2010 totaled \$506,989 and \$572,088, respectively.

Financial Statement Presentation

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting. The Organization also reports 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. There were no permanently restricted net assets for the years ended June 30, 2011 and 2010, respectively.

Use of Estimates

The accounting and financial reporting policies of the Organization conform to generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from those estimates.

LOVE146, Inc.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on the functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Cash and Cash Equivalents and Credit Risk

For purposes of the statement of cash flows, the Organization considers all short-term investments, with a maturity of three months or less when purchased, and money market mutual funds, to be cash equivalents.

At June 30, 2011 and 2010, the carrying amount of the Organization's cash and cash equivalents was \$228,561 and \$392,442, respectively, and balances in banks amounted to \$233,008 and \$397,242, respectively. Deposits in banks are insured by the Federal Deposit Insurance Corporation up to \$250,000. The deposit balances in banks were fully insured as of June 30, 2011. However, as of June 30, 2010, deposits exceeded the federally insured limits and were not insured.

Contributions

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. The Organization does 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 year 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 contributions is provided based on management's evaluation of potential uncollectable receivable.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Grant Revenue

Grants are generally considered to be exchange transactions in which the grantor requires the performance of specified activities. Entitlement to cost reimbursement grants is conditioned on the expenditure of funds in accordance with grant restrictions and, therefore, revenue is recognized to the extent of grant expenditures. Grant receipts in excess of revenues recognized are presented as deferred grant revenue, if it is expected that the excess will be spent pursuant to the terms of the grant. If the excess is not expected to be spent, it is considered an account payable.

Inventory

Inventory consists of items purchased by the Organization and available for sale through the Organization for promotional purposes. Inventory is stated at the lower of cost (first-in, first-out) or market.

LOVE146, Inc.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

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.

Donated Services

The Organization recognizes donated services if they create or enhance non-financial assets or requires specialized skills and would typically be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition in the financial statement. However, a substantial number of volunteers have donated significant amounts of their time in the Organization's operations and fund-raising campaigns.

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 liabilities for these amounts have been recorded in the accompanying financial statements. Company policy is to recognize the cost of compensated absences when actually paid to employees.

Income Tax Status

The Organization is a not-for-profit Organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from State income taxes. Accordingly, no provision for income taxes has been made in the financial statements. The Organization is subject to tax on unrelated business income, if incurred, as well as certain state filing fees.

The Organization has concluded that there are no uncertain tax positions that would require recognition in the financial statements. If the Organization were to incur an income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties would be reported as income taxes. The Organizations conclusions regarding uncertain tax positions may be subject to review and adjustment at a later date based on ongoing analysis of tax laws, regulations and interpretations thereof as well as other factors. Generally, federal and state authorities may examine the Organization's tax returns for three years from the date of filing. Consequently, income tax returns for three years prior to 2007 are no longer subject to examination by taxing authorities.

Note 2- Contribution Receivables, Support and Revenue

Contributions and Concentration of Major Contributors

Contributions totaled \$2,229,107 and \$1,826,961 for the years ended June 30, 2011 and 2010, respectively. For the years then ended, the Organization's three largest contributors accounted for 7%, 3% and 2% and 8%, 5% and 4%, respectively.

LOVE146, Inc.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

Contributions Receivable

Contributions receivable totaled \$53,841 and \$25,037 at June 30, 2011 and 2010, respectively, 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 the Organization. In addition, contributions receivable also include short-term pledges that were not received prior to the year ended June 30, 2011. As of the year ended June 30, 2011 and 2010, the allowance for doubtful accounts is \$860 and \$4,245, respectively.

Grant Contributions

The Organization received conditional grant funding from Spring Harvest Charitable Trust totaling \$39,816 during the year ended June 30, 2010. The grant allows for the reimbursement of previously agreed upon expenditures related to the construction of a safe house in the Philippines. These contributions are recorded when received and are included in unrestricted contributions and grants in the Statement of Activities.

Special Events

The Organization conducted one special event during the year ended June 30, 2010 that generated \$37,270 of gross revenue, which includes the amount paid by the donor for the stated fair market value of the services received by the donor at the event totaling \$7,545. All costs related to the banquet are included in fund raising costs in the statement of activities

Promotional Sales

During the years ended June 30, 2011 and 2010, the Organization promoted its mission in part through the sale of promotional items such as t-shirts, wrist bands and other items that individuals purchase in support of LOVE146, Inc.'s mission to work toward the abolition of child sex trafficking and exploitation prevention and aftercare. Total sales of promotional items for the years ended June 30, 2011 and 2010 were \$49,829 and \$22,640. Total costs related to the promotional items were \$24,074 and \$15,641. Net promotional revenues were \$25,755 and \$6,999, for the years ended June 30, 2011 and 2010, respectively.

Note 3-Note Payable

On May 1 2007, the Organization entered into a three-year note payable with our Landlord to fund leasehold improvements. The original amount of the note was \$5,801 and was payable in equal installments of principal and interest over the term of the loan. The note bearded interest at 6% and was secured by corporate assets. Interest expense on the note was \$291 for the year ended June 30, 2010. The note payable does not require covenants related to our financial performance. The final payment obligation on the note occurred during the year ended June, 30, 2010 and as of the year then ended, there is no remaining balance on the obligation.

Note 4-Leases

Capital Leases

The Organization leased office equipment under a capital lease agreement which expired in 2010. The asset and liabilities under capital leases are recorded at \$7,366, the lesser of the present value of the minimum lease payments or the

LOVE146, Inc.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

fair value of the asset. The assets were amortized over the term of the lease, which was lower than their estimated useful lives. Amortization of assets under capital lease is included in depreciation expense. As of the year ended June 30, 2010, the capital lease obligation was fulfilled.

Operating Leases

The Organization leased office space in New Haven, Connecticut under a three-year non-cancelable operating lease, which expires April 30, 2013. The lease requires annually increasing monthly payments ranging from \$3,400 to \$3,678 over the three year life of the lease. Total rent expense for the year ended June 30, 2011 and 2010 was \$47,291 and \$24,646. Future minimum operating lease commitments under lease are as follows:

2012	\$ 42,715
2013	<u>36,775</u>
	<u>\$ 79,490</u>

Note 5- Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of unconditional promises to give for future periods. The following unconditional promises to give are earmarked for specific programs and uses as of June 30, 2011 and 2010:

	2011	2010	Net change
Philippines Round Home	\$ 132,449	\$ 38,301	\$ 94,148
Aftercare research	17,737	-	17,737
Prevention	1,760	75	1,685
Other	<u>1,840</u>	<u>-</u>	<u>1,840</u>
Total	<u>\$ 153,786</u>	<u>\$ 38,376</u>	<u>\$ 115,410</u>

Note 6- Related Party Transactions

LOVE146 (Philippines)

On January 24, 2008, LOVE146, Inc. (US) entered into an Association Agreement (agreement) with a related party in the Philippines, LOVE146 (Philippines) to support their mission in the area. The agreement requires, among other things, that LOVE146 (Philippines) maintain a board of directors and executive director whose appointments must all be ratified by LOVE146, Inc. (US). The agreement also requires that to ensure coordination with LOVE146, Inc. (US), LOVE146 (Philippines) annual proposed budget must be approved by Love146, Inc.-US prior to adoption. In addition, LOVE146 (Philippines) shall provide monthly financial reports and quarterly audited financial statements to LOVE146, 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 cancelation 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; (2) inconsistent with the ministry of exempt status of any party to this agreement; or (3) which would subject any party to public disrepute.

LOVE146, Inc.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

In addition, the two parties entered into a Trademark License Agreement which grants a non-transferable, exclusive, royalty free license to LOVE146 (Philippines) to use Trademarks registered with the United States Patent and Trademark Office by LOVE146, Inc. (US), as long as the Trademark License Agreement and Association Agreement remain in place.

During the year ended June 30, 2011 and 2010, the Organization provided LOVE146 (Philippines) with \$175,554 and \$565,073, respectively, in support to fund operations and construct additional facilities to support our mutual mission.

LOVE146 (UK)

On March 24, 2010, LOVE146, Inc. (US) entered into an Association Agreement (agreement) with a related company in the United Kingdom, LOVE146 (UK) to support their mission in Europe. The agreement requires, among other things, that LOVE146 (UK) maintain a board of directors and executive director whose appointments must all be ratified by LOVE146, Inc. (US). The agreement also requires that to ensure coordination with LOVE146, Inc. (US). LOVE146 (UK)'s, annual proposed budget must be approved by LOVE146, Inc. (US) prior to adoption. In addition, LOVE146 (UK) shall provide monthly financial reports and quarterly audited financial statements to LOVE146, 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 cancelation within a certain period of time, loss of tax exempt status by either party or if organization engages in any act that is (1) in violation of the agreement; (2) 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. Non-transferable, exclusive royalty free license to LOVE146 (UK) to use Trademarks registered with the United States Patent and Trademark Office by LOVE146, Inc. (US), as long as the Trademark License Agreement and Association Agreement remain in place.

During the years ended June 30, 2010, the Organization provided LOVE146 (UK) with \$7,015 in support to fund expenses associated with the set up cost for LOVE146 (UK) and other reasonable expenses associated with operations. The Organization did not provide them with any funding during the year ended June 30, 2011.

Note 7- Subsequent Events

Subsequent events were considered through August 31, 2011, which is the date the financial statements were available to be issued.