

LOVE146, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

Love146, Inc.
Year Ended June 30, 2010
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Love146, Inc.
New Haven, Connecticut

We have audited the accompanying statements of financial position of Love146, Inc. (a nonprofit Organization) as of June 30, 2010 and the related statements of activities 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.

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 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, 2010, 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.

Henry, Raymond & Thompson, LLC

Henry, Raymond & Thompson, LLC
Hamden, Connecticut

November 8, 2010

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Accounting, Auditing, Tax, Estate Planning, and Small Business Consulting Services

LOVE146, INC.
STATEMENT OF FINANCIAL POSITION
AS OF THE YEAR ENDED JUNE 30, 2010

	<u>June 30,</u> <u>2010</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 392,442
Contributions receivable, net	25,037
Inventory	3,457
Prepaid expenses and other current assets	<u>3,000</u>
Total Current Assets	423,936
Furniture, equipment and leasehold improvements, net	15,952
Other non-current assets	<u>3,400</u>
Total Assets	<u><u>\$ 443,288</u></u>
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 12,599
Accrued expenses	<u>43,097</u>
Total current liabilities	55,696
Total Liabilities	<u>55,696</u>
Net Assets	
Unrestricted net assets	349,216
Temporarily restricted net assets	<u>38,376</u>
Total net assets	<u>387,592</u>
Total Liabilities and Net Assets	<u><u>\$ 443,288</u></u>

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

LOVE146, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and Support				
Contributions	\$1,788,585	\$ 38,376	\$ -	\$1,826,961
Special events	37,270	-	-	37,270
Other	8,284	-	-	8,284
Total revenue and support	1,834,139	38,376	-	1,872,515
Expenses				
Program services	1,378,219	-	-	1,378,219
Management and general	254,847	-	-	254,847
Fundraising	295,718	-	-	295,718
Total expenses	1,928,784	-	-	1,928,784
Increase (decrease) in net assets	(94,645)	38,376	-	(56,269)
Net assets, beginning of period	443,861	-	-	443,861
Net assets, end of period	<u>\$ 349,216</u>	<u>\$ 38,376</u>	<u>\$ -</u>	<u>\$ 387,592</u>

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

LOVE146, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

	Program Services	Management and General	Fundraising	Total
Grant expense	\$ 572,088	\$ -	\$ -	\$ 572,088
Salaries, employee benefits and related expenses	351,851	93,892	150,518	596,261
Contract labor	287,496	-	91,236	378,732
Rent, utilities, parking	5,182	47,205	60	52,447
Travel and related expenses	100,559	5,584	15,675	121,818
Professional fees	12,715	35,893	15,045	63,653
Supplies	2,905	6,658	2,038	11,601
Printing and reproduction	3,440	8,015	13,162	24,617
Depreciation and amortization	10,019	4,294	-	14,313
Bank fees	521	27,085	120	27,726
Postage	1,465	5,393	7,650	14,508
Insurance	2,780	4,781	-	7,561
Staff development	-	14,887	-	14,887
Other	27,198	1,160	214	28,572
	<u>\$ 1,378,219</u>	<u>\$ 254,847</u>	<u>\$ 295,718</u>	<u>\$1,928,784</u>

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

LOVE146, INC.
STATEMENTS OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2010

	<u>June 30,</u> <u>2010</u>
Cash flows from operating activities	
Increase in net assets	\$ (56,269)
Adjustments to reconcile change in net assets	
Depreciation	14,313
Changes in operating assets and liabilities:	
Contributions receivable	(7,964)
Inventory	(3,457)
Prepaid expense	765
Accounts payable	10,605
Accrued expenses	31,193
Net cash used by operating activities	<u>(10,814)</u>
Cash flows from investing activities	
Purchase of Equipment	<u>(12,267)</u>
Net cash used in investing activities	<u>(12,267)</u>
Cash flows from financing activities	
Payments on notes payable	(1,717)
Payments on capital leases	<u>(2,761)</u>
Net cash used in financing activities	<u>(4,478)</u>
Net decrease in cash	(27,559)
Cash at beginning of period	<u>420,001</u>
Cash at end of period	<u>\$ 392,442</u>
Supplementary Disclosures:	
Income taxes paid	\$ -
Interest paid	\$ 291

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

Love146, Inc.
Notes to Financial Statements
Year Ended June 30, 2010

NOTE 1 – Organization and Nature of Activities

In September 2002, Love146, Inc. 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 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. 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 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 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 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

Love146, Inc.
Notes to Financial Statements
Year Ended June 30, 2010

management's evaluation of potential uncollectable promises receivable at year-end. As of the year ended June 30, 2010, 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 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.

As of June 30, 2010, Love146, 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.

Love146, Inc.
Notes to Financial Statements
Year Ended June 30, 2010

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 or market (first-in, first-out) or market.

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 June 30, 2010, our three largest contributors accounted for 8%, 5% and 4% of our total contribution support for the year.

Grant Contributions

We 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.

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.

Love146, Inc.
Notes to Financial Statements
Year Ended June 30, 2010

Fair Value of Financial Instruments

Accounting Standards 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.

Accounting Standards requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The Standards also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of three levels:

Level 1 – Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 – Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

The carrying amounts reflected in the statement of financial position for cash and cash equivalents, contributions receivable, prepaid expenses, deposits, accounts payable and accrued expenses approximate fair value due to their short-term maturities. Inventories are stated at the lower of cost or market. Furniture, equipment and leasehold improvements are recorded at cost and depreciated or amortized over their useful life.

Income Taxes

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 and local 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, state and local authorities may examine the Organization's tax

Love146, Inc.
Notes to Financial Statements
Year Ended June 30, 2010

returns for three years from the date of filing. Consequently, income tax returns for years prior to 2006 are no longer subject to examination by taxing authorities.

Subsequent Events

As of November 8, 2010, the Organization evaluated all subsequent events and noted no recognized or non-recognized events or transaction subsequent to June 30, 2010. Financial Statements for the Organization were available to be issued as of November 8, 2010.

NOTE 3 - Furniture, Equipment and Leasehold Improvements

A summary of furniture, equipment and leasehold improvements are as follows:

	<u>June 30,</u> <u>2010</u>
Furniture and equipment	\$ 58,603
Leasehold improvements	<u>5,801</u>
	64,404
Less accumulated depreciation and amortization	<u>(48,452)</u>
Total	<u>\$ 15,952</u>

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 \$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 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 the year ended June 30, 2010, the capital lease obligation was fulfilled.

Love146, Inc.
Notes to Financial Statements
Year Ended June 30, 2010

Operating Lease

We lease office space in New Haven, Connecticut under a three-year noncancelable operating lease, which expired April 30, 2010. The lease required monthly payments of \$1,700. As of the year ended June 30, 2010, the Organization is continuing to rent the facility on a month-to-month basis. Total rent expense for the year ended June 30, 2010 was \$24,646.

NOTE 6 – Temporarily Restricted Net Assets

As of June 30, 2010, temporarily restricted net assets consist of donor-restricted contributions for the specific use toward prevention and aftercare programs.

NOTE 7 – Related Party

Love146. - Philippines

On January 24, 2008, Love146, Inc. (US) entered into an Association Agreement (agreement) with a related party in the Philippines, Love146, Inc. (Philippines) to support their mission in the area. The agreement requires, among other things, that Love146, Inc.-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, Inc.-Philippines' annual proposed budget must be approved by Love146, Inc.-US prior to adoption. In addition, Love146, Inc.-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 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 Love146, Inc.-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, 2010, we provided Love146, Inc. - Philippines with \$565,073 in support to fund operations and construct additional facilities to support our mutual mission.

Love146. – U.K.

On March 24, 2010, Love146, Inc. (US) entered into an Association Agreement (agreement) with a related party in the United Kingdom, Love146, Inc. – UK to support their mission in Europe. The agreement

Love146, Inc.
Notes to Financial Statements
Year Ended June 30, 2010

requires, among other things, that Love146, Inc.- 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, Inc.- UK's annual proposed budget must be approved by Love146, Inc.-US prior to adoption. In addition, Love146, Inc.- 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 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 Love146, Inc.- 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 year ended June 30, 2010, we provided Love146, Inc. - UK with \$7,015 in support to fund expenses associated with the set up cost for Love146, Inc. – UK and other reasonable expenses associated with operations.

NOTE 8 – Contributions

Contributions Receivable

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

Special Events

We conducted one special event during the year ended June 30, 2010 that generated \$37,270. 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 \$7,545 for the year ended June 30, 2010. All costs related to the banquet are included in fund raising costs in the statement of activities.