



For Love of Children

Teach. Empower. Transform.

Financial Statements

For the Year Ended September 30, 2018

(With Summarized Financial Information for the Year Ended September 30, 2017)



**and
Report Thereon**



FOR LOVE OF CHILDREN, INC.

TABLE OF CONTENTS
For the Year Ended September 30, 2018

	<i>Page</i>
Independent Auditors' Report	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-15

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
For Love of Children, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of For Love of Children, Inc. (FLOC), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Continued

- 1 -

Opinion

In our opinion, the 2018 financial statements referred to above present fairly, in all material respects, the financial position of For Love of Children, Inc. as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The 2017 financial statements of FLOC as of and for the year ended September 30, 2017, were audited by Raffa, P.C., whose practice was combined with Marcum LLP as of October 1, 2018, and whose audit report dated January 10, 2018, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Washington, DC
February 1, 2019

FOR LOVE OF CHILDREN, INC.

STATEMENT OF FINANCIAL POSITION

September 30, 2018

(With Summarized Financial Information as of September 30, 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 31,000	\$ 46,350
Investments	796,768	863,769
Accounts receivable, net	5,119	5,303
Pledges and grants receivable, net	595,934	328,075
Prepaid expenses and security deposits	86,077	46,376
Property and equipment, net	348,875	292,533
TOTAL ASSETS	\$ 1,863,773	\$ 1,582,406
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 122,240	\$ 19,368
Accrued salaries and benefits	72,366	77,038
Deferred rent	34,088	-
Line of credit	200,000	20,000
TOTAL LIABILITIES	428,694	116,406
Net Assets		
Unrestricted	500,620	678,870
Temporarily restricted	634,459	487,130
Permanently restricted	300,000	300,000
TOTAL NET ASSETS	1,435,079	1,466,000
TOTAL LIABILITIES AND NET ASSETS	\$ 1,863,773	\$ 1,582,406

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

FOR LOVE OF CHILDREN, INC.
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018
(With Summarized Financial Information for the Year Ended September 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
OPERATING REVENUE, GAINS AND SUPPORT					
Grants and contributions	\$ 1,580,005	\$ 277,454	\$ -	\$ 1,857,459	\$ 1,668,056
Program service fees	109,411	-	-	109,411	73,353
Net assets released from restrictions:					
Satisfaction of time restrictions	50,675	(50,675)	-	-	-
Satisfaction of purpose restrictions	81,000	(81,000)	-	-	-
TOTAL OPERATING REVENUE, GAINS AND SUPPORT	<u>1,821,091</u>	<u>145,779</u>	<u>-</u>	<u>1,966,870</u>	<u>1,741,409</u>
OPERATING EXPENSES					
Program Services:					
Neighborhood Tutoring Program	508,136	-	-	508,136	467,947
High School Scholars	273,880	-	-	273,880	239,900
Post-Secondary Scholars	116,152	-	-	116,152	103,039
Middle School Scholars	224,868	-	-	224,868	189,503
Fred Taylor Scholarship	81,220	-	-	81,220	66,483
Outdoor Education Center	396,991	-	-	396,991	385,664
Total Program Services	<u>1,601,247</u>	<u>-</u>	<u>-</u>	<u>1,601,247</u>	<u>1,452,536</u>
Supporting Services:					
Management and general	72,620	-	-	72,620	79,594
Fundraising	328,088	-	-	328,088	294,313
Total Supporting Services	<u>400,708</u>	<u>-</u>	<u>-</u>	<u>400,708</u>	<u>373,907</u>
TOTAL OPERATING EXPENSES	<u>2,001,955</u>	<u>-</u>	<u>-</u>	<u>2,001,955</u>	<u>1,826,443</u>
Change in net assets from operations	(180,864)	145,779	-	(35,085)	(85,034)
NONOPERATING ACTIVITIES					
Net realized and unrealized gains (losses) on investments	(18,340)	(11,075)	-	(29,415)	63,535
Interest and dividends	20,954	12,625	-	33,579	23,486
CHANGE IN NET ASSETS	<u>(178,250)</u>	<u>147,329</u>	<u>-</u>	<u>(30,921)</u>	<u>1,987</u>
NET ASSETS, BEGINNING OF YEAR	<u>678,870</u>	<u>487,130</u>	<u>300,000</u>	<u>1,466,000</u>	<u>1,464,013</u>
NET ASSETS, END OF YEAR	<u>\$ 500,620</u>	<u>\$ 634,459</u>	<u>\$ 300,000</u>	<u>\$ 1,435,079</u>	<u>\$ 1,466,000</u>

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

FOR LOVE OF CHILDREN, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2018
(With Summarized Financial Information for the Year Ended September 30, 2017)

	Program Services						Supporting Services			2018 Total	2017 Total	
	Neighborhood Tutoring Program	High School Scholars	Post- Secondary Scholars	Middle School Scholars	Fred Taylor Scholarship	Outdoor Education Center	Total Program Services	Management and General	Fundraising			Total Supporting Services
Salaries and benefits	\$ 284,053	\$ 172,835	\$ 90,352	\$ 151,367	\$ -	\$ 270,998	\$ 969,605	\$ 48,242	\$ 206,895	\$ 255,137	\$ 1,224,742	\$ 1,125,393
Occupancy	104,040	48,168	367	29,824	-	24,240	206,639	12,066	20,738	32,804	239,443	212,353
Professional and contract services	56,784	23,350	11,837	19,825	-	12,659	124,455	39,335	51,083	90,418	214,873	195,929
Scholarships and special needs	1,233	279	26	279	81,000	10	82,827	200	639	839	83,666	69,042
Insurance	12,920	3,334	-	3,334	-	21,606	41,194	9,180	-	9,180	50,374	53,556
Equipment	10,216	4,312	1,676	3,243	-	12,583	32,030	2,356	12,450	14,806	46,836	43,732
Food	2,210	1,636	563	1,334	-	13,465	19,208	590	10,186	10,776	29,984	25,291
Communications	6,342	3,907	2,104	3,589	-	3,278	19,220	3,188	2,647	5,835	25,055	24,776
Fees	1,664	1,896	626	1,323	220	7,154	12,883	2,882	4,944	7,826	20,709	19,016
Travel and transportation	3,736	1,286	2,227	748	-	3,496	11,493	1,440	2,911	4,351	15,844	23,735
Supplies	1,377	664	356	473	-	5,735	8,605	2,515	647	3,162	11,767	14,875
Bad debt	-	-	-	-	-	-	-	13,480	-	13,480	13,480	-
Financing costs	2,337	1,071	666	932	-	2,029	7,035	333	1,146	1,479	8,514	4,335
Staff development	1,733	1,164	930	509	-	2,289	6,625	19	250	269	6,894	3,788
Mail services	548	299	214	245	-	609	1,915	479	1,223	1,702	3,617	3,818
Vehicles	-	-	-	-	-	2,919	2,919	-	-	-	2,919	4,186
Advertising	438	123	143	98	-	869	1,671	16	936	952	2,623	842
Curriculum	399	124	-	92	-	-	615	-	-	-	615	1,776
Overhead	18,106	9,432	4,065	7,653	-	13,052	52,308	(63,701)	11,393	(52,308)	-	-
TOTAL EXPENSES	\$ 508,136	\$ 273,880	\$ 116,152	\$ 224,868	\$ 81,220	\$ 396,991	\$ 1,601,247	\$ 72,620	\$ 328,088	\$ 400,708	\$ 2,001,955	\$ 1,826,443

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

FOR LOVE OF CHILDREN, INC.

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2018

(With Summarized Financial Information for the Year Ended September 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (30,921)	\$ 1,987
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Provision for doubtful accounts	13,480	-
Net realized and unrealized losses (gains) on investments	29,415	(63,535)
Changes in assets and liabilities:		
Accounts receivable	184	(4,529)
Pledges and grants receivable	(281,339)	57,800
Prepaid expenses and security deposits	(39,701)	30,656
Accounts payable and accrued expenses	102,872	12,248
Accrued salaries and benefits	(4,672)	4,402
Deferred rent	34,088	-
	<u>(176,594)</u>	<u>39,029</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(33,530)	(23,428)
Proceeds from sales of investments	71,116	33,653
Payment on leasehold improvements	(56,342)	-
	<u>(18,756)</u>	<u>10,225</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under line of credit	492,000	408,000
Payments made to line of credit	(312,000)	(438,000)
	<u>180,000</u>	<u>(30,000)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(15,350)</u>	<u>19,254</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>46,350</u>	<u>27,096</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 31,000</u>	<u>\$ 46,350</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 8,514</u>	<u>\$ 4,335</u>

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

FOR LOVE OF CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2018

1. Organization and Summary of Significant Accounting Policies

Organization

For Love of Children, Inc. (FLOC) is a 501(c)(3) nonprofit community-based organization incorporated under the District of Columbia Non-Profit Corporation Act in November 1965. FLOC's mission is to provide young children and high-risk youth with the resources to achieve educational and personal success through a continuum of educational services that prepare them to become confident, life-long learners and contributing members of their communities. FLOC was founded by a consortium of churches and concerned citizens to act on behalf of the abandoned, abused and neglected children of the District of Columbia. FLOC founded the District's first Child Advocacy Center and cofounded the Consortium for Child Welfare. FLOC's programs are funded primarily through grants and contributions from foundations and individuals.

Cash Equivalents

FLOC considers all money market funds to be cash equivalents.

Investments

Investments consist of mutual funds and are recorded at fair value. All investment earnings or losses, including unrealized gains and losses resulting from fluctuations in the fair value of the investments, are recognized in the accompanying statement of activities as nonoperating activities.

Fair Value Measurement

In accordance with the accounting standards for fair value measurement for those assets and liabilities that are measured at fair value on a recurring basis, FLOC has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest-level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that FLOC has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

FOR LOVE OF CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2018

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value Measurement (continued)

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

As of and for the year ended September 30, 2018, only FLOC's investments, as described in Note 2 of these financial statements, were measured at fair value on a recurring basis.

Pledges, Grants and Accounts Receivable

Pledges and grants receivable represent contributions from foundations and individuals. Accounts receivable consist of amounts due as reimbursements for expenses incurred under contract terms. FLOC uses the allowance method to record potentially uncollectible accounts.

Property and Equipment and Related Depreciation and Amortization

Furniture and equipment are stated at cost and are depreciated using the straight-line method over estimated useful lives of three to seven years, with no salvage value. Buildings and building improvements are depreciated using the straight-line method over an estimated useful life of 40 years, with no salvage value. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation and amortization are eliminated from the respective accounts and the resulting gain or loss is included in the accompanying statement of activities.

Classification of Net Assets

FLOC's net assets are reported as follows:

- Unrestricted net assets represent amounts expendable for the support of FLOC's operations.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors for various programs or future time periods.
- Permanently restricted net assets represent funds designated by donors for the Fred Taylor Scholarship Endowment Fund (the Fund), wherein the principal must remain in perpetuity and the investment earnings, including any net gains or losses, must be used for the purposes specified by the donors.

Revenue Recognition

Unconditional contributions are recognized as support when they are received or promised, whichever occurs first. FLOC reports gifts of cash and other assets that are received with donor stipulations limiting the use of the donated assets as unrestricted contributions if all such donor restrictions are met in the fiscal year in which the award is received.

FOR LOVE OF CHILDREN, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2018**

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

FLOC 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 to a particular purpose or time period if such donor stipulations are not fully met in the fiscal year in which the award is received. When a donor restriction expires through the fulfillment of the intended purpose or the expiration of time, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Program service fees are recognized as revenue when earned.

Impairment of Long-Lived Assets

In accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 360, *Property, Plant, and Equipment*, FLOC reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. As of September 30, 2018, FLOC had not recognized an impairment loss.

Donated Goods and Services

FLOC utilizes volunteers who contribute their time and perform a variety of tasks to assist with FLOC's program services. No amounts have been recorded in the accompanying statements of activities and functional expenses related to these volunteer services because they do not meet the criteria for recognition as donated services under the accounting standards.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated based upon various methods deemed to justify the benefits received by those programs and supporting services.

Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Nonoperating Activities

FLOC reports all activities as operating activities except for investment gains and interest and dividends.

FOR LOVE OF CHILDREN, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2018**

2. Investments

As of September 30, 2018, FLOC's investments consisted of an investment reserve, the original gift of the Fund and cumulative unspent earnings on the Fund's investments.

The following table summarizes FLOC's investments measured at fair value as of September 30, 2018:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Mutual funds:				
Equity:				
Value	\$ 175,950	\$ 175,950	\$ -	\$ -
Growth	515,720	515,720	-	-
Fixed income:				
World bonds	<u>105,098</u>	<u>105,098</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 796,768</u>	<u>\$ 796,768</u>	<u>\$ -</u>	<u>\$ -</u>

The mutual funds were valued on the basis of quoted prices in an active market.

Investment returns, including interest of \$50 earned on cash and cash equivalents, were composed of the following for the year ended September 30, 2018:

Interest and dividends	\$ 33,579
Net realized and unrealized losses on investments	<u>(29,415)</u>
Investment Returns, Net	<u>\$ 4,164</u>

3. Pledges and Grants Receivable

Pledges and grants receivable represent amounts due from individual donors and foundations. As of September 30, 2018, the promised contributions were due to be received as follows:

Less than one year	\$ 550,448
One to five years	<u>84,531</u>
Total Pledges and Grants Receivable	634,979
Less: Allowance for Uncollectible Pledges	(36,546)
Less: Present Value Component (average of 1%)	<u>(2,499)</u>
Pledges and Grants Receivable, Net	<u>\$ 595,934</u>

Continued

FOR LOVE OF CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2018

4. Property and Equipment and Accumulated Depreciation

Property and equipment consisted of the following as of September 30, 2018:

Buildings and improvements	\$ 329,967
Furniture and equipment	200,864
Land	292,532
Leasehold improvements	<u>56,342</u>
Total Property and Equipment	879,705
Less: Accumulated Depreciation and Amortization	<u>(530,830)</u>
Property and Equipment, Net	<u>\$ 348,875</u>

No depreciation and amortization expense was recorded for the year ended September 30, 2018, as all of FLOC's depreciable property and equipment was fully depreciated with the exception of leasehold improvements, which were not put into service until September 30, 2018.

5. Line of Credit

On May 3, 2018, FLOC entered into a \$200,000 line of credit agreement, which has a maturity date of May 3, 2020. Amounts drawn on this line accrue interest at the prime rate plus 1%, with a floor of 6%, and are payable on demand. As of September 30, 2018, the prime rate was 5.25%. As of September 30, 2018, FLOC had an outstanding balance of \$200,000 on this line of credit. The line of credit is guaranteed by the assets of FLOC.

6. Commitments

Operating Lease

On April 20, 2012, FLOC entered into a noncancelable operating lease for its office space. The lease expired on November 30, 2015, and FLOC continued renting the office space on a month-to-month basis.

On June 26, 2018, FLOC entered into a noncancelable operating lease for its office space. The lease term is August 1, 2018, through March 31, 2027, with abatement of the full monthly rent from August 1, 2018, through March 31, 2019. Rent expense for the year ended September 30, 2018, was \$218,619. Future minimum lease payments are as follows:

For the Year Ending <u>September 31,</u>	
2019	\$ 94,939
2020	196,174
2021	204,021
2022	212,182
2023	220,670
Thereafter	<u>844,617</u>
Total	<u>\$ 1,772,603</u>

Continued

FOR LOVE OF CHILDREN, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2018**

6. Commitments (continued)

Concentration of Revenue

FLOC recognized approximately \$900,000, representing 46% of FLOC's total operating revenue, gains and support, from two donors for the year ended September 30, 2018.

7. Net Assets

Temporarily Restricted Net Assets

As of September 30, 2018, temporarily restricted net assets were designated for future periods or specific programs as follows:

Time-restricted for future periods	\$ 349,680
Scholarship program	<u>284,779</u>
Total Temporarily Restricted Net Assets	<u>\$ 634,459</u>

Endowment Funds

The Fund was established in 1999 to provide scholarships for youth enrolled in FLOC's programs to attend college or trade school equivalents. The donor's original gift of appreciated securities, in the amount of \$478,000, was required to be invested in perpetuity, with the investment returns to be used to fund scholarships. If the dollar amount of the scholarships awarded is less than the investment returns for a particular year, the remaining investment returns are to be reinvested in the Fund until such time as additional scholarships are awarded. During the year ended September 30, 2004, the donor lifted the permanent restriction on \$178,000, making this amount available for an integrated educational guidance and scholarship program.

Earnings on this fund are considered temporarily restricted, as such earnings may be used only for the program purpose specified by the donor.

For the year ended September 30, 2018, FLOC's endowment fund had the following activity:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 11,349	\$ 300,000	\$ 311,349
Investment returns:				
Interest and dividends	-	12,625	-	12,625
Unrealized losses	-	(11,075)	-	(11,075)
Amounts appropriated for expenditure	<u>-</u>	<u>(12,899)</u>	<u>-</u>	<u>(12,899)</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ 300,000</u>

Continued

FOR LOVE OF CHILDREN, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2018**

7. Net Assets (continued)

Endowment Funds (continued)

Interpretation of Relevant Law

FLOC classifies as permanently restricted net assets the original value of all gifts donated to the permanent endowment. FLOC's policy is to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary.

The Board of Directors of FLOC has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing FLOC to appropriate for expenditure or accumulate so much of an endowment fund as FLOC determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

Investment returns on permanently restricted endowments are classified in accordance with donor specifications. When no specifications are outlined by the donor, investment earnings on the permanently restricted and temporarily restricted net assets arising from earnings thereon are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by FLOC.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor requires an organization to retain as a fund of perpetual duration. Deficiencies of this nature are reported as part of unrestricted net assets. As of September 30, 2018, there were no such deficiencies.

Return Objectives and Risk Parameters

FLOC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in funds to achieve growth in principal value and income over time sufficient to preserve or increase the purchasing power of the funds, thus protecting the funds against inflation. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term return objectives, FLOC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). FLOC targets a diversified asset allocation which is reviewed as necessary by the Board of Directors.

Spending Policy

The earnings on the permanently restricted net assets are released from temporary restricted funds and are used in accordance with donor stipulations when scholarships are awarded annually.

FOR LOVE OF CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2018

8. Program Services

During the fiscal year ended September 30, 2018, FLOC's programs included the following:

- *Neighborhood Tutoring Program* – This one-on-one tutoring program helps students in grades 1-12 achieve grade-level competency in reading and math by ensuring that they achieve 100% mastery in one skill before moving on to the next.
- *Scholars Program* – The FLOC Scholars Program helps students in grades 6-12 and beyond gain the skills they need to graduate from high school, pursue higher education, and achieve college and career success.
- *Fred Taylor Scholarship Program* – This program supports economically disadvantaged youth on the path to successful completion of a post-secondary education.
- *Outdoor Education Center* – The Outdoor Education Center facilitates healthy character development for youth and adults in a powerful outdoor classroom. The facility and its staff also provide custom-designed retreats for outside groups.

9. Tax-Deferred Annuity Plan

FLOC offers a tax-deferred annuity plan (the Plan) organized under Internal Revenue Code (IRC) Section 403(b). Under the Plan, eligible employees may elect to contribute up to the federal tax limitation. Employees are eligible immediately upon being hired and are immediately fully vested. The employer contributes an amount equal to 4% of each participant's annual salary to the Plan. For the year ended September 30, 2018, FLOC contributed \$9,677 to the Plan on behalf of its employees.

10. Income Taxes

FLOC is exempt from the payment of taxes on income other than unrelated business income under IRC Section 501(c)(3) and has been classified as a public charity. No provision for income taxes has been made, as FLOC had no significant unrelated business income for the year ended September 30, 2018.

FLOC reviews and assesses all activities annually to identify any changes in the scope of the activities and revenue sources, and the tax treatment thereof, to identify any uncertainty in income taxes. For the year ended September 30, 2018, management did not identify any uncertainty in income taxes that would require recognition or disclosure in these financial statements. As of September 30, 2018, the statute of limitations for fiscal years ending September 30, 2014 through 2016, remained open with the U.S. federal jurisdiction or the various states and local jurisdictions in which FLOC files tax returns. It is FLOC's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense. As of September 30, 2018, FLOC had no accrued interest and/or penalties.

FOR LOVE OF CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2018

11. Comparative Prior Year Summarized Data

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional area. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with FLOC's financial statements for the year ended September 30, 2017, from which the summarized information was derived.

12. Risk and Uncertainties

For the year ended September 30, 2018, FLOC incurred an unrestricted operating loss of \$180,864 and a change in net assets from operations of \$35,085 (loss). FLOC expects to meet future cash needs by increasing development efforts.

13. Subsequent Events

FLOC's management has evaluated subsequent events through February 1, 2019, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.