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FINANCIAL REPORT

For Love of Children

Teach. Empower. Transform.

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

FOR LOVE OF CHILDREN

FINANCIAL REPORT
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
For Love of Children
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of For Love of Children, which comprise the statement of financial position as of September 30, 2020, and the related statements of activities and changes in net assets, 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 auditors consider 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.

Opinion

In our opinion, the 2020 financial statements referred to above present fairly, in all material respects, the financial position of For Love of Children as of September 30, 2020, 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.

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Prior Period Financial Statements

The financial statements of For Love of Children for the year ended September 30, 2019 were audited by other auditors, whose report dated June 19, 2020 expressed an unmodified opinion on those financial statements.

Thompson Greenspon

Fairfax, Virginia
February 23, 2021

FOR LOVE OF CHILDREN

STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2020 AND 2019

	2020	2019
ASSETS		
Cash and cash equivalents	$ 591,866	$ 205,619
Investments	1,178,772	779,989
Contributions and grants receivable, net	95,000	362,428
Prepaid expenses and other assets	60,709	35,943
Property and equipment, net	1,349,205	383,540
Total Assets	$ 3,275,552	$ 1,767,519
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 33,158	$ 71,700
Accrued salaries and benefits	42,264	31,175
Scholarships payable	23,807	-
Deferred rent	152,037	143,680
Line of credit	-	68,000
Loan - Paycheck Protection Program	161,700	-
Total Liabilities	412,966	314,555
Net Assets		
Without donor restrictions	953,229	536,335
With donor restrictions	1,909,357	916,629
Total Net Assets	2,862,586	1,452,964
Total Liabilities and Net Assets	$ 3,275,552	$ 1,767,519

The Notes to Financial Statements are an integral part of these statements.

FOR LOVE OF CHILDREN

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Contributions and grants	$ 1,738,328	$ 1,370,865	$ 3,109,193	$ 1,646,297	$ 176,380	$ 1,822,677
Program service fees	-	-	-	20,375	-	20,375
Investment income	28,969	24,699	53,668	22,316	13,845	36,161
Net assets released from restrictions						
Satisfaction of time restrictions	307,129	(307,129)	-	163,930	(163,930)	-
Satisfaction of purpose restrictions	95,707	(95,707)	-	44,125	(44,125)	-
Total Support and Revenue	2,170,133	992,728	3,162,861	1,897,043	(17,830)	1,879,213
Expenses						
Program services						
Neighborhood Tutoring Program	369,085	-	369,085	445,704	-	445,704
Middle School and High School Scholars	134,313	-	134,313	373,501	-	373,501
Post-Secondary Scholars	230,459	-	230,459	109,895	-	109,895
Fred Taylor Scholarship	113,341	-	113,341	62,516	-	62,516
Outdoor Education Center	81,562	-	81,562	234,989	-	234,989
Total Program Services	928,760	-	928,760	1,226,605	-	1,226,605
Supporting services						
Management and general	309,821	-	309,821	261,517	-	261,517
Fundraising	514,658	-	514,658	373,206	-	373,206
Total Supporting Services	824,479	-	824,479	634,723	-	634,723
Total Expenses	1,753,239	-	1,753,239	1,861,328	-	1,861,328
Change in Net Assets	416,894	992,728	1,409,622	35,715	(17,830)	17,885
Net Assets, beginning of year	536,335	916,629	1,452,964	500,620	934,459	1,435,079
Net Assets, end of year	$ 953,229	$ 1,909,357	$ 2,862,586	$ 536,335	$ 916,629	$ 1,452,964

The Notes to Financial Statements are an integral part of these statements.

FOR LOVE OF CHILDREN

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2020

	Program Services						Supporting Services			
	Neighborhood Tutoring Program	Middle School and High School Scholars	Post-Secondary Scholars	Fred Taylor Scholarship	Outdoor Education Center	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries and benefits	$ 226,838	$ 83,101	$ 83,101	$ 46,912	$ 47,187	$ 487,139	$ 49,821	$ 266,226	$ 316,047	$ 803,186
Professional and contract services	15,899	5,815	84,438	3,286	3,301	112,739	74,298	145,481	219,779	332,518
Occupancy	52,834	19,349	19,796	10,935	16,799	119,713	58,207	62,018	120,225	239,938
Bad debt	-	-	-	-	-	-	96,749	-	96,749	96,749
Scholarship and special needs	389	8,103	29,950	46,220	59	84,721	312	331	643	85,364
Insurance	12,706	4,653	4,653	2,630	4,440	29,082	13,999	14,914	28,913	57,995
Equipment	10,954	6,588	1,287	710	3,787	23,326	3,785	9,464	13,249	36,575
Depreciation and amortization	14,399	2,045	2,045	1,156	1,161	20,806	6,153	6,556	12,709	33,515
Communications	6,901	2,549	1,727	312	2,779	14,268	1,658	1,765	3,423	17,691
Curriculum	12,145	-	-	-	10	12,155	-	-	-	12,155
Supplies	3,139	315	1,059	161	928	5,602	856	1,430	2,286	7,888
Advertising	3,733	336	336	190	204	4,799	1,008	1,102	2,110	6,909
Fees	2,494	353	427	200	370	3,844	1,056	1,196	2,252	6,096
Food	1,476	691	545	393	126	3,231	668	1,422	2,090	5,321
Travel and transportation	2,164	22	702	13	13	2,914	68	72	140	3,054
Financing costs	658	241	241	136	137	1,413	725	773	1,498	2,911
Staff development	1,130	32	32	19	19	1,232	99	1,502	1,601	2,833
Mail services	1,226	120	120	68	68	1,602	359	406	765	2,367
Vehicles	-	-	-	-	174	174	-	-	-	174
Total Expenses	$ 369,085	$ 134,313	$ 230,459	$ 113,341	$ 81,562	$ 928,760	$ 309,821	$ 514,658	$ 824,479	$ 1,753,239

The Notes to Financial Statements are an integral part of this statement.

FOR LOVE OF CHILDREN

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2019

	Program Services						Supporting Services			
	Neighborhood Tutoring Program	Middle School and High School Scholars	Post-Secondary Scholars	Fred Taylor Scholarship	Outdoor Education Center	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries and benefits	$ 207,338	$ 189,610	$ 61,175	$ 38,186	$ 158,901	$ 655,210	$ 113,693	$ 193,048	$ 306,741	$ 961,951
Professional and contract services	55,905	50,715	16,040	-	21,224	143,884	50,726	101,873	152,599	296,483
Occupancy	90,003	81,535	24,175	-	14,741	210,454	3,204	43,379	46,583	257,037
Bad debt	-	-	-	-	-	-	85,436	-	85,436	85,436
Scholarship and special needs	3,855	3,195	706	24,250	211	32,217	19	239	258	32,475
Insurance	12,207	7,680	694	-	18,244	38,825	2,076	2,383	4,459	43,284
Equipment	10,389	13,517	2,385	-	7,107	33,398	2,340	13,606	15,946	49,344
Depreciation and amortization	2,954	2,506	754	-	445	6,659	615	1,649	2,264	8,923
Communications	5,156	5,661	1,632	-	3,192	15,641	681	2,383	3,064	18,705
Curriculum	6,532	9,257	23	-	51	15,863	71	80	151	16,014
Supplies	6,532	1,892	732	-	2,110	11,266	639	1,726	2,365	13,631
Advertising	331	28	-	-	1,409	1,768	31	2,918	2,949	4,717
Fees	3,212	1,711	339	-	1,813	7,075	897	5,792	6,689	13,764
Food	2,879	1,397	109	80	984	5,449	135	1,085	1,220	6,669
Travel and transportation	33,508	1,405	361	-	755	36,029	600	1,081	1,681	37,710
Financing costs	1,969	1,798	565	-	1,366	5,698	74	1,012	1,086	6,784
Staff development	2,274	956	26	-	10	3,266	14	71	85	3,351
Mail services	637	620	174	-	667	2,098	250	863	1,113	3,211
Vehicles	23	18	5	-	1,759	1,805	16	18	34	1,839
Total Expenses	$ 445,704	$ 373,501	$ 109,895	$ 62,516	$ 234,989	$ 1,226,605	$ 261,517	$ 373,206	$ 634,723	$ 1,861,328

The Notes to Financial Statements are an integral part of this statement.

FOR LOVE OF CHILDREN

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ 1,409,622	$ 17,885
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	33,515	8,923
Unrealized and realized gain on operating investments	(13,327)	(22,137)
Reinvested interest and dividends on operating investments	(20,992)	(179)
Endowment net investment return	(19,349)	(13,845)
Donated property	(986,720)	-
(Increase) Decrease in		
Contributions and grants receivable, net	267,428	238,625
Prepaid expenses and other assets	(24,766)	50,134
Increase (Decrease) in		
Accounts payable and accrued expenses	(38,542)	(50,540)
Accrued salaries and benefits	11,089	(41,191)
Scholarships payable	23,807	-
Deferred rent	8,357	109,592
Net Cash Provided by Operating Activities	650,122	297,267
Cash Flows from Investing Activities		
Purchase of investments	(424,104)	-
Proceeds from sales of investments	78,989	52,940
Purchase of property and equipment	(12,460)	(43,588)
Net Cash (Used) Provided by Investing Activities	(357,575)	9,352
Cash Flows from Financing Activities		
Borrowings under line of credit	60,000	-
Payments made to line of credit	(128,000)	(132,000)
Proceeds from Paycheck Protection Program loan	161,700	-
Net Cash Provided (Used) by Financing Activities	93,700	(132,000)
Net Increase in Cash and Cash Equivalents	386,247	174,619
Cash and Cash Equivalents, beginning of year	205,619	31,000
Cash and Cash Equivalents, end of year	$ 591,866	$ 205,619
Supplemental Information		
Interest paid	$ 2,911	$ 6,784

The Notes to Financial Statements are an integral part of these statements.

1. **NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and Purpose

For Love of Children (the Organization) is a 501(c)(3) nonprofit community-based organization incorporated under the District of Columbia Non-Profit Corporation Act in November 1965. The Organization'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. For Love of Children 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. For Love of Children founded the District's first Child Advocacy Center and cofounded the Consortium for Child Welfare. The Organization's programs are funded primarily through grants and contributions from foundations and individuals.

The underlying categories represent the major program areas of the Organization.

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 percent mastery in one skill before moving on to the next.

Scholars Program – The Organization's 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, located in West Virginia, 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.

Basis of Accounting

The financial statements of For Love of Children have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, revenue is recognized when earned and expenses are recognized when incurred.

Financial Statement Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include demand deposits and all highly liquid debt instruments with original maturities of three months or less.

The Organization maintains cash balances with several financial institutions which, at times, may exceed federally insured limits of $250,000. The Organization has not experienced any losses from such accounts.

1. **NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Investments

Investments consist of mutual funds and exchange traded funds and are recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Unrealized and realized gains and losses are reported in the statements of activities and changes in net assets as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Investment expenses are included in investment income.

Fair Value

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures,* provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value focuses on the price that would be received to sell the asset or paid to transfer the liability regardless of whether an observable liquid market price existed (an exit price). The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 – inputs to the valuation methodology are based upon unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 – inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities measured at fair value are based on one or more of three valuation techniques (market, cost, or income approach). The market approach evaluates prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The cost approach evaluates the amount that would be required to replace the service capacity of an asset (i.e., replacement cost). The income approach uses techniques that convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following describes the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2020.

Mutual Funds: Valued at the net asset value (NAV) of shares held by the Organization at year end.

Exchange traded funds: Valued at the closing price reported in the active market in which the individual securities are traded.

1. **NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Fair Value (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Contributions and Grants Receivable

Contributions receivable represents amounts which have been promised but not yet received. Various grants received by the Organization periodically require progress reports on the activities of the Organization.

Contributions receivable due within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and contribution revenue. In subsequent years, amortization of the discounts is included in contributions revenue in the statements of activities and changes in net assets. The Organization determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At September 30, 2020 and 2019, the allowance was $-0- and $36,546, respectively.

Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. There were no conditional promises to give for the year ended September 30, 2020.

Property and Equipment

The Organization has a capitalization policy for qualifying assets in excess of $2,500. Property and equipment are reported at cost and are depreciated using the straight-line method over estimated useful lives of three to seven years. Commercial buildings are depreciated using the straight-line method over an estimated useful life of 40 years. Residential buildings are depreciated using the straight-line method over an estimated useful life of 29.5 years. Tenant improvements are depreciated over the term of the lease.

Expenditures for maintenance and repairs that do not materially extend the useful lives of property and equipment are charged to expense when incurred. When property or equipment is sold or otherwise disposed of, the cost and accumulated depreciation are removed from the respective accounts with the resulting gain or loss reflected in earnings.

Paycheck Protection Program Loan

As described in Note 7, the Organization received a Paycheck Protection Program loan. The Organization accounts for the loan under FASB ASC Topic 470, *Debt*, whereby the amount will not be recognized as a gain on extinguishment until the Organization is legally released as primary obligor.

1. **NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Scholarships Payable

Scholarships payable are recorded when approved by the Board. All scholarships are payable within one year. All scholarships are unconditional.

Revenue Recognition

The activities of the Organization are primarily financed by contributions and grants. Contributions and grants are recognized as revenue in the year an unconditional promise to give is received and are recorded at fair value. The Organization reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. The Organization reports gifts of cash and other assets as support with donor restrictions if the contributions have been restricted by donors temporarily due to time, or indefinitely. Donor-restricted contributions whose restrictions are met in the same reporting period as the contribution is received are reported as net assets without donor restrictions.

The Organization reports noncash gifts as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are acquired or placed in service.

Gifts and bequests of property are recorded at the earlier of the date received or when the bequest is no longer subject to probate and its value can be reasonably estimated. Gifts and bequests are valued at their estimated fair market value on the date of receipt. The Organization recognized $986,720 in gifts of property with donor restrictions during the year ended September 30, 2020. The fair market value of the donated property was determined using Washington, DC’s assessed property values.

The Organization recognizes revenue from exchange transactions in accordance with ASC Topic 606, *Revenue from Contracts with Customers*. There were no exchange transactions for the year ended September 30, 2020.

Jan’s Tutoring House Donations

During the fiscal year 2020, as the result of Jan’s Tutoring House (a 501(c)(3) nonprofit organization) dissolution, For Love of Children was transferred the management and administrative operation of Jan’s Tutoring House’s Eichhorn Scholarship Program. For Love of Children has recognized approximately $344,000 as a contribution with donor restrictions related to the scholarship fund assignment. The net assets with donor restrictions for this scholarship fund are reported within the Scholars Program net asset category in Notes 9 and 10.

In addition to the scholarship fund, Jan’s Tutoring House donated two townhouses to For Love of Children during fiscal year 2020. The Organization recognized the $986,720 property donation as a contribution with donor restrictions. For Love of Children is to maintain and operate the donated townhouses in furtherance of the Organization’s charitable mission. The townhouses or any proceeds therefrom shall be re-distributed to another local non-profit with a similar or comparable charitable mission upon For Love of Children’s dissolution.

1. **NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Jan's Tutoring House Donations (continued)

The donated property consisted of the following at September 30, 2020:

Buildings, restricted	$ 520,020
Land, restricted	466,700
Total Restricted Property	986,720
Less: Accumulated Depreciation on Restricted Property	(11,758)
Restricted Property, net	$ 974,962

Donated Services and In-Kind Contributions

For Love of Children utilizes volunteers who contribute their time and perform a variety of tasks to assist with the Organization's program services. No amounts have been recorded in the accompanying statements of activities and changes in net assets and statements of functional expenses related to these volunteer services because they do not meet the criteria for recognition as donated services under the accounting standards. Contributions of services are recognized if the services received create or enhance non-financial assets or require special skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. For the years ended September 30, 2020 and 2019, the Organization received $78,404 and $-0- in donated services, respectively. The donated services in 2020 were for legal fees.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salary and benefits, depreciation, insurance, occupancy, professional and contract services, and other expenses, which are allocated on the basis of estimates of time and effort. Expenses related to curriculum, scholarships and special needs, and travel are charged to the appropriate program as they are incurred.

Effective for the year ended September 30, 2020, the Fred Taylor Scholarship program received a full allocation of the supporting services; prior to this, only direct expenses were charged to the program.

1. **NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of the District of Columbia, For Love of Children is exempt from taxes on income related to its exempt purpose.

For Love of Children has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements and no interest and penalties have been recorded in the accompanying financial statements related to uncertain tax positions.

For Love of Children files Form 990, Return of Organization Exempt from Income Tax, with the Internal Revenue Service. The Organization is not currently under audit by any income tax jurisdiction.

For Love of Children is subject to unrelated business income tax for activities conducted outside its tax-exempt purpose. The Organization did not conduct unrelated business activities during the years ended September 30, 2020 and 2019.

Recent Accounting Pronouncements

<u>ASU 2016-02</u>

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842).* The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, *Leases* (FAS 13). ASU 2016-02 requires an entity to recognize assets and liabilities on the balance sheet for the rights and obligations created by leased assets and provide additional disclosures. ASU 2016-02 is effective for non-public entities for fiscal years beginning after December 15, 2021, with early adoption permitted. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Adoption of New Accounting Standards

In May 2014, the FASB issued ASC Topic 606, *Revenue from Contracts with Customers*. The new accounting standard is effective for non-public entities for annual reporting periods beginning after December 15, 2019. The Organization adopted ASC Topic 606 for the initial application on October 1, 2019. The new accounting standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance (ASC Topic 605, *Revenue Recognition*) in U.S. generally accepted accounting principles. The standard also requires expanded disclosures regarding the Organization's revenue recognition policies and significant judgments employed in the determination of revenue.

The Organization adopted ASC Topic 606 using the modified retrospective method, and accordingly the new guidance was applied retrospectively to contracts that were not completed as of October 1, 2019 (the date of initial application). Therefore, the comparative financial statements for the year ended September 30, 2019 have not been restated and continue to be reported under the prior revenue recognition guidance.

At October 1, 2019, there was no impact and no cumulative catch-up was required.

1. **NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Adoption of New Accounting Standards (continued)

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the Organization's implementation of ASU 2018-08.

Reclassifications

Certain items in the September 30, 2019 financial statements have been reclassified to conform to the September 30, 2020 financial statement presentation. The reclassifications had no impact on previously reported net assets.

Subsequent Events

The date to which events occurring after September 30, 2020, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is February 23, 2021, which is the date on which the financial statements were available to be issued.

2. **LIQUIDITY AND AVAILABILITY**

The financial assets and liquidity resources available within one year of the statement of financial position date for general expenditure were as follows at September 30, 2020:

Cash and cash equivalents	$ 591,866
Contributions and grants receivable, net	95,000
Investments	1,178,772
Financial assets, at year end	1,865,638
Less those unavailable for general expenditures within one year due to:	
Program restrictions	(839,395)
Board-designated reserve fund	(48,205)
Subtotal unavailable for general expenditures within one year	(887,600)
Financial assets available to meet cash needs for general expenditures within one year	$ 978,038

The Organization has a goal to maintain financial assets on hand to meet normal operating expenses for the current budget year. To help manage unanticipated liquidity needs, the Organization has a committed line of credit of $200,000 available to draw upon as of September 30, 2020. The Organization's endowment fund consists of a donor endowment. Income from donor endowment is restricted for specific purposes and, therefore, is not available for general expenditure.

3. **INVESTMENTS**

The following tables summarize the Organization's assets measured at fair value on a recurring basis as of September 30, aggregated by the fair value hierarchy level in which those measurements were made:

2020	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds				
Growth	$ 321,304	$ 321,304	$ -	$ -
Value	341,808	341,808	-	-
Bonds	177,886	177,886	-	-
Subtotals	840,998	840,998	-	-
Exchange Traded Funds	337,774	337,774	-	-
Total Investments	$ 1,178,772	$ 1,178,772	$ -	$ -

2019	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds				
Growth	$ 499,722	$ 499,722	$ -	$ -
Value	176,725	176,725	-	-
Bonds	103,542	103,542	-	-
Total Investments	$ 779,989	$ 779,989	$ -	$ -

We evaluated the significance of transfers between the levels based upon the nature of the financial instrument and size of the transfer relative to the total investments. For the year ended September 30, 2020, there were no significant transfers in or out of Levels 1, 2 or 3.

Investment returns from investments, as well as cash and cash equivalents, consisted of the following for the years ended September 30:

	2020	2019
Interest and dividends	$ 31,171	$ 179
Unrealized and realized gains	22,497	35,982
Total Investment Income	$ 53,668	$ 36,161

4. PROPERTY AND EQUIPMENT

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

	2020	2019
Buildings and improvements	$ 329,966	$ 329,966
Buildings and improvements, restricted	520,020	-
Land	292,532	292,532
Land, restricted	466,700	-
Furniture and equipment	58,282	173,892
Leasehold improvements	65,162	65,162
Total Property and Equipment	1,732,662	861,552
Less: Accumulated Depreciation and Amortization	(371,699)	(478,012)
Less: Accumulated Depreciation on Restricted Property	(11,758)	-
Property and Equipment, net	$ 1,349,205	$ 383,540

Depreciation and amortization expense for the years ended September 30, 2020 and 2019 was $33,515 and $8,923, respectively.

5. LINE OF CREDIT

On May 3, 2018, For Love of Children entered into a $200,000 line of credit agreement, which had a maturity date of May 3, 2020. The Organization renewed the line of credit through May 3, 2022. Amounts drawn accrue interest at the Wall Street Journal Prime rate plus 1 percent, with a floor of 4.5 percent, and are payable on demand. As of September 30, 2020 and 2019, For Love of Children had an outstanding balance of $-0- and $68,000, respectively. The line of credit is collateralized by the assets of the Organization.

6. LEASES

On June 26, 2018, For Love of Children 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 is recognized on a straight-line basis over the term of the lease resulting in the recording of a deferred rent liability for rent holidays.

Following are the future minimum payments under the lease at September 30, 2020:

Year ending September 30:	
2021	$ 204,021
2022	212,182
2023	220,670
2024	229,496
2025	238,676
Thereafter	376,445
Total	$ 1,481,490

6. **LEASES** (continued)

On January 31, 2020, For Love of Children entered into a lease agreement expiring December 31, 2020, to rent out certain space in the buildings donated to the Organization during the 2020 fiscal year. Lease receipts are $2,960 per month. The lease was extended subsequent to year end for an additional term of six months. The future minimum rental income under the non-cancelable lease is $8,880 for the year ending September 30, 2021.

Rent expense for the year ended September 30, 2020 amounted to $215,383, net of lease income of $24,033, for net rent expense of $191,350. Rent expense for the year ended September 30, 2019 was $207,031.

7. **PAYCHECK PROTECTION PROGRAM LOAN**

On April 9, 2020, the Organization qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), from a qualified lender (the "PPP Lender"), for an aggregate principal amount of $161,700 (the "PPP Loan"). The PPP Loan bears interest at a fixed rate of 1.0 percent per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration.

The principal amount of the PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the Organization's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Organization. The Organization intends to apply for forgiveness of the PPP Loan with respect to these covered expenses.

To the extent that all or part of the PPP Loan is not forgiven, the Organization will be required to pay interest on the PPP Loan at a rate of 1.0 percent per annum. Payments are not required to be made while the Organization waits for the forgiveness decision if the borrower submits a loan forgiveness application within 10 months of the end of the covered period. The PPP Loan maturity date is April 9, 2022. The terms of the PPP Loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The PPP Loan may be accelerated upon the occurrence of an event of default.

8. **RETIREMENT PLAN**

For Love of Children 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 to participate immediately upon being hired. After one year of service, full-time employees are eligible to receive a discretionary matching contribution from the Organization. The Organization's employees were eligible to receive employer matching contributions up to 4 percent of each participant's annual salary to the Plan each year. Effective March 1, 2020, employees are eligible to receive employer matching funds up to 3 percent of participant's annual salary each year. Employees are vested in the employer contributions of the Plan based on years of service and are 33 percent vested after year 1, 67 percent vested after year 2, and fully vested after year 3. For the years ended September 30, 2020 and 2019, the Organization contributed $1,613 and $1,982 to the Plan on behalf of its employees, respectively.

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at September 30:

	2020	2019
Subject to expenditure for specified purpose:		
Fred Taylor Scholarship Program	$ 208,744	$ 254,500
Scholars Program	330,651	-
Contributed property		
Buildings	520,020	-
Land	466,700	-
Less: Accumulated depreciation	(11,758)	-
Contributed property, net	974,962	-
Subtotal subject to expenditure for specified purpose	1,514,357	254,500
Subject to occurrence of specified events/passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	95,000	362,129
Perpetual in nature:		
Fred Taylor Scholarship Endowment Fund	300,000	300,000
Total Net Assets with Donor Restrictions	$ 1,909,357	$ 916,629

10. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors, were as follows at September 30:

	2020	2019
Satisfaction of purpose restrictions		
Fred Taylor Scholarship Program	$ 65,105	$ 44,125
Scholars Program	18,844	-
Contributed property depreciation	11,758	-
Subtotal	95,707	44,125
Expiration of time restrictions	307,129	163,930
Total Net Assets Released from Restrictions	$ 402,836	$ 208,055

11. ENDOWMENT FUNDS

As of September 30, 2020 and 2019, net assets with donor restrictions included endowment funds of $300,000 that are required to be maintained permanently, either by explicit donor stipulation or by the District of Columbia Uniform Prudent Management of Institutional Funds Act (UPMIFA). The value of the endowment fund was $300,000 as of September 30, 2020 and 2019. As of September 30, 2020 and 2019, net assets with donor restrictions included $-0- of endowment fund earnings, which are restricted to be used only for the program purpose specified by the donor, in accordance with spending policies for endowed funds, and are subject to purpose restrictions under UPMIFA.

11. **ENDOWMENT FUNDS** (continued)

The endowment consists of one donor-restricted contribution. For Love of Children has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, For Love of Children classifies the following as net assets with donor restrictions perpetual in nature: (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts of the permanent endowment.

The Fund was established in 1999 to provide scholarships for youth enrolled in the Organization'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.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the Organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the Organization.

The Organization's endowment fund had the following activity for the years ended September 30:

	2020	2019
Endowment net assets, beginning of year	$ 300,000	$ 300,000
Investment return, net	19,349	13,845
Amounts appropriated for expenditure	(19,349)	(13,845)
Endowment net assets, end of year	$ 300,000	$ 300,000

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. In accordance with generally accepted accounting principles in the United States of America, deficiencies of this nature are reported in net assets with donor restrictions. As of September 30, 2020 and 2019, there were no such deficiencies.

As of September 30, 2020 and 2019, the endowment was invested in mutual funds, which are included in investments in the accompanying statements of financial position.

11. **ENDOWMENT FUNDS** (continued)

Return Objectives and Risk Parameters

For Love of Children has adopted investment and spending policies for the endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the endowment investments.

Spending Policy

Earnings on the endowment net assets are released from donor restrictions and are used in accordance with donor stipulations when scholarships are awarded annually. Any unexpended earnings are reinvested in the fund.

12. **CONCENTRATIONS**

Two entities accounted for 68 and 40 percent of the Organization's revenue for the years ended September 30, 2020 and 2019, respectively. Three entities accounted for 99 and 34 percent of total contributions and grants receivable at September 30, 2020 and 2019, respectively.

13. **CONTINGENCIES**

For Love of Children invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the Organization's investments and the amounts reported in the statements of financial position and the statements of activities and changes in net assets.

14. **COVID-19 UNCERTAINTY**

On March 11, 2020, the World Health Organization recognized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy, including the industries in which the Organization operates. The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Organization's business and financial results will depend on future developments, including the duration and spread of the outbreak within the markets in which the Organization operates and the related impact on consumer confidence and spending, all of which are highly uncertain.