CHILDREN OF THE NIGHT, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2021

(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2020)

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 3
FINANCIAL STATEMENTS	
Statement of financial position	4
Statement of activities	5
Statement of functional expenses	6
Statement of cash flows	7
NOTES TO FINANCIAL STATEMENTS	8 – 19

INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Children of the Night, Inc.
Los Angeles, California

Opinion

We have audited the financial statements of Children of the Night, Inc., which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Children of the Night, Inc. as of December 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Children of the Night, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Children of the Night, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Children of the Night, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Children of the Night, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Children of the Night, Inc.'s December 31, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 1, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ozurovich & Associates

Ozurovich & Associates

Rancho Santa Margarita, California
May 24, 2022

CHILDREN OF THE NIGHT, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2020)

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 354,046	$ 386,440
Investments (Note 3)	1,702,499	1,472,414
Prepaid expenses	29,099	29,099
Total current assets	2,085,644	1,887,953
Property and equipment - net (Note 4)	2,693,265	2,679,076
Other assets (Note 8)	44,998	-
TOTAL ASSETS	$ 4,823,907	$ 4,567,029
LIABILITIES		
Current liabilities		
Accounts payable	$ 34,725	$ 47,595
Accrued expenses (Note 5)	823,131	360,841
Total current liabilities	857,856	408,436
NET ASSETS		
Net assets without donor restrictions	3,966,051	4,158,593
TOTAL LIABILITIES AND NET ASSETS	$ 4,823,907	$ 4,567,029

CHILDREN OF THE NIGHT, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2020)

	2021	2020
SUPPORT		
Foundations	$ 466,710	$ 293,934
Individuals	1,490,141	2,091,665
Corporations	86,927	51,551
Bequests	160,334	163,639
Grants (Note 10)	-	107,800
Total Support	2,204,112	2,708,589
REVENUE		
Investment return (Note 3)	(471)	8,415
Partnership income	16,982	17,158
Other income	15	1,161
Total Revenue	16,526	26,734
DONATED GOODS AND SERVICES	98,776	30,892
Total Support and Revenue	2,319,414	2,766,215
OPERATING EXPENSES		
Program Services		
Children's services	2,140,499	1,319,431
Total Program Services	2,140,499	1,319,431
Supporting Services		
Management and general	262,280	80,800
Fund raising	109,177	107,312
Total Supporting Services	371,457	188,112
TOTAL OPERATING EXPENSES	2,511,956	1,507,543
CHANGE IN NET ASSETS	(192,542)	1,258,672
NET ASSETS, Beginning of year	4,158,593	2,899,921
NET ASSETS, End of year	$ 3,966,051	$ 4,158,593

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2020)

	2021				2020
	Program Services	**Supporting Services**			
	Children's Services	Management and General	Fund Raising	**TOTAL**	**TOTAL**
Salaries and wages	$ 1,317,768	$ 84,914	$ 23,516	$ 1,426,198	$ 784,175
Payroll taxes	16,895	35,564	11,801	64,260	54,402
Employee benefits	265,623	38,136	2,405	306,164	66,873
Salaries, payroll taxes and employee benefits	1,600,286	158,614	37,722	1,796,622	905,450
Advertising	16,318	349	860	17,527	24,664
Auto	16,050	569	570	17,189	8,556
Bank fees	2,097	135	1,576	3,808	2,557
Client services	78,826	2,227	163	81,216	63,317
Depreciation	50,402	-	-	50,402	26,507
Dues and subscriptions	6,489	193	930	7,612	7,924
Emergency transportation	8,246	-	-	8,246	9,453
Fundraising events	-	4,579	20,698	25,277	20,602
Insurance	53,310	1,784	1,658	56,752	47,424
Interest	-	14	-	14	911
Legal and audit	8,300	1,207	1,100	10,607	10,500
Licensing	-	25	-	25	533
Outreach	51,811	-	3,963	55,774	38,653
Outside services	52,126	10,254	16,239	78,619	39,292
Postage	3,654	727	3,952	8,333	10,826
Printing	4,888	407	11,504	16,799	16,828
Rent	3,415	680	661	4,756	29,595
Repairs and maintenance	37,638	2,775	2,138	42,551	55,817
Repairs and maintenance - program	17,781	980	991	19,752	29,843
School supplies	7,328	-	-	7,328	3,920
Small equipment	3,216	2,192	1,081	6,489	16,921
Staff development	19,067	1,759	765	21,591	22,530
Supplies	14,933	555	899	16,387	28,231
Taxes and fees	3,170	4,002	239	7,411	3,024
Telephone	24,288	1,087	1,096	26,471	28,455
Travel	2,621	-	-	2,621	11,064
Utilities	21,597	1,032	372	23,001	13,254
Total expenses before donated goods and services	2,107,857	196,146	109,177	2,413,180	1,476,651
Donated services	32,642	66,134	-	98,776	30,892
Total Expenses	$ 2,140,499	$ 262,280	$ 109,177	$ 2,511,956	$ 1,507,543

CHILDREN OF THE NIGHT, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2020)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (192,542)	$ 1,258,672
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	50,402	26,507
Donated stock	(2,557)	(289,823)
Realized (gain) on sale of investments	(938)	(6,581)
Unrealized (gain) on sale of investments	5,129	(254)
(Increase) decrease in assets		
Prepaid expenses	-	(13,991)
Deposits	(44,998)	5,000
Increase (decrease) in liabilities		
Accounts payable	(12,870)	(10,429)
Accrued expenses	462,290	(9,740)
Net cash provided by operating activities	263,916	959,361
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(64,591)	(201,145)
Purchases of investments	1,982,338	247,565
Proceeds from sale of donated stock and investments	(2,214,057)	(1,422,321)
Net cash (used) by investing activities	(296,310)	(1,375,901)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	-	(19,718)
Net cash (used) by financing activities	-	(19,718)
NET (DECREASE) IN CASH	(32,394)	(436,258)
CASH AND CASH EQUIVALENTS, beginning of year	386,440	822,698
CASH AND CASH EQUIVALENTS, end of year	$ 354,046	$ 386,440
Supplemental Cash Flow Disclosures:		
Interest paid	$ 14	$ 911

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH SUMMARIZED COMPARATIVE TOTALS FOR DECEMBER 31, 2020

NOTE 1 – ORGANIZATION

Children of the Night, Inc. (the "Organization") is a California non-profit corporation incorporated on December 2, 1981.

Throughout the years, Children of the Night has gained the reputation as one of the most prominent and successful organizations in the nation addressing the needs of America's sex trafficked children. Diplomats come from all over the world to observe our work including Europe, Japan, Romania, Southeast Asia, Nepal, Africa, India, Mexico, and Canada.

Since our inception, private donors have exclusively funded all Children of the Night programs.

Children of the Night has developed an effective model of case management and education combining technology and mobilized social services.

From our headquarters, Children of the Night Case Managers provide children 24-hour services 7 days a week. Whether they need rescue from pimps, medical services, public health insurance, social security/disability benefits, maternity housing, drug program placement, domestic violence shelter, emergency transportation, mental health services, psychiatric evaluations or access to psychotropic medications, advocacy with the courts, social workers, probation officers, resume preparation, jobs, access to vocational or trade schools or community colleges, applications for FAFSA (federally funded financial aid) we are ready and willing to help.

Our FREE, face to face online tutoring program tutors sex trafficking victims so they may obtain their high school equivalency and escape the streets to enter the military or support positions in medicine or law, attend vocational, trade school even community college.

Our students are unable to attend regular school because of trauma and their existing chaotic lifestyles so our case management program dovetails with our GED online tutoring program.

The number of young people we reach since our transition from shelter to mobile case management in 2018 increased the number of clients by 90%.

Permanent solutions for young people trying to escape prostitution may only be resolved by innovative social services not by law enforcement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Organization is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

(Note 2 continued on the following page)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

> *Net Assets Without Donor Restrictions* – Include contributions, fundraising, fees and other forms of unrestricted revenue and expenditures related to the general operations and fundraising efforts of the Organization.
>
> *Net Assets With Donor Restrictions* – Include gifts and grants received that are restricted with respect to time or use by the donor or grantor. When the restrictions expire, the net assets of this fund are reclassified to net assets without donor restrictions. Restricted gifts and grants received are reported as unrestricted revenue if the restriction is met in the same reporting period.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net assets class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statement for the year ended December 31, 2020, from which the summarized information was derived.

(Note 2 continued on the following page)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Status

The Organization is a nonprofit benefit organization organized under the laws of California and, as such, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, and corresponding state provisions. However, the Organization is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption.

The Organization's federal income tax and informational returns for tax years ending December 31, 2018 and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, the Organization's most significant jurisdiction, remain subject to examination by the California Franchise Tax Board for tax years ending December 31, 2017 and subsequent.

The Organization has adopted the provisions of Accounting Standards Codification ("ASC") 740-10-05 relating to accounting and reporting for uncertainty in income taxes. For the Organization, these provisions could be applicable to the incurrence of any unrelated business income attributable to the Organization. Because of the Organization's general tax-exempt status, the provisions of ASC 740-10-05 are not anticipated to have a material impact on the Organization's financial statements.

Restricted and Unrestricted Revenue and Support

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reported period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Contributed Services and Gifts In-Kind

Contributed services are recognized if the services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Only those amounts that meet the criteria above are recorded in the accompanying financial statements. During the years ended December 31, 2021 and 2020 the Organization received donated services in the amounts of $98,776 and $30,892, respectively. The contributions were recorded at their fair market value at the date of donation. Equal amounts were also recorded as donated services expense. Also, a substantial number of unpaid volunteers have contributed their time in conjunction with the Organization's programs and services.

(Note 2 continued on the following page)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the financial statements, the Organization considers all debt instruments purchased with a maturity of three months or less to be cash equivalents. Commercial banks have FDIC coverage up to $250,000 per depositor per bank. At December 31, 2021 and 2020 the uninsured amounts were $111,278 and $144,283, respectively.

Property and Equipment

Property and equipment are recorded at cost if purchased and at fair value at the date of donation if donated. Repairs and maintenance are expensed as incurred and improvements of property and equipment items in excess of $1,000 are capitalized. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment amount that will be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Grant Revenues and Donations

The Organization receives funding through grants from private foundations, individuals, and corporations. Grant revenue includes conditional contributions under which revenue is recognized when earned and expenses are recognized when incurred. Grant receipts from exchange transactions not earned are reported as deferred income, if any.

Vacation and Sick Leave Benefits

Employees are credited during the current year for future vacation and sick leave benefits. The expense and corresponding liability are accrued when vacations are earned rather than when they are paid.

(Note 2 continued on the following page)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

The Organization uses advertising to promote its programs among the communities it serves. The production costs of advertising are expensed as incurred. During the years ended December 31, 2021 and 2020, advertising costs totaled $17,527 and $24,664, respectively.

Risks and Uncertainties

Conditions created by the COVID-19 environment could contribute to short-term financial challenges that adversely affect the Organization's cash flows. Specifically, there is the potential for reductions in private donations and decreased student and senior day care enrollment if program activities are forced to be significantly curtailed due to government mandated shutdowns. The Organization's Board of Directors has discussed these risks and uncertainties and has formulated alternative strategic plans to mitigate the effects of these concerns.

Expense Allocation

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 salaries, payroll taxes and employee benefits which are allocated on the basis of estimates of time and effort for the Organization's personnel. The following expenses are allocated using the same percentages as the personnel costs described above because they are incurred in support of the day-to-day job functions of the Organization's employees: advertising, auto, insurance, repairs and maintenance, repairs and maintenance - program, supplies, telephone and utilities.

New Accounting Pronouncements

Leases – In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

(Note 2 continued on the following page)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

Revenue Recognition – In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2020. Early adoption is not permitted. The Organization has adopted ASU 2014-09 in these financial statements on a retrospective basis. No adjustments to net assets as of January 1, 2020 was necessary and adoption of the new guidance did not have a material impact on the Organization's financial statements.

Fair Value Disclosures – In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-13, Fair Value Measurement (Topic 820): *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, and was adopted by the Organization on January 1, 2020. The adoption of ASU 2018-13 had no impact on the financial statements.

NOTE 3 – FAIR VALUE MEASUREMENTS

The Organization has adopted the provisions of ASC 820-10, for fair value measurements of financial assets and financial liabilities, and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis. ASC 820-10 defines fair value as 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.

The assets that are recorded at fair value on a recurring basis are pledges receivable. The Organization has no financial liabilities or non-financial items that are recorded at fair value on a non-recurring basis.

ASC 820-10 establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

(Note 3 continued on the following page)

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

- Level 1: fair values are based on quoted prices in active markets for identical assets and liabilities. The Organization's Level 1 assets consist of short-term money market accounts.

- Level 2: fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the asset. The Organization's Level 2 assets consist of alternative investments.

- Level 3: fair values are calculated by the use of pricing models and/or discounted cash flow methodologies and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data. The Organization has no Level 3 assets at December 31, 2021 and 2020.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair values may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering from sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

The asset 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 is a description of the valuation methodologies used for assets measured at fair value.

Alternative investments: Valued at the daily closing price as reported by the fund's custodian which is based on the fair value of the underlying investments of the funds, less any liabilities. The board-designated investments held by the Organization are deemed to be actively traded.

Exchange traded funds and mutual funds: Valued at the daily closing price as reported by the fund. Exchange traded funds and mutual funds held by the Organization are open-end funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The exchange traded funds and mutual funds held by the Organization are deemed to be actively traded.

(Note 3 continued on the following page)

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

The following tables set forth by level, within the fair value hierarchy, the Organization's assets measured at fair value as of December 31, 2021 and 2020.

Assets at Fair Value as of December 31, 2021

	Level 1	*Level 2*	*Level 3*	*Total*
Assets in the fair value hierarchy:				
Money market accounts	$ 224,574	$ -	$ -	$ 224,574
Alternative investments	-	33,312	-	33,312
	$ 224,574	$ 33,312	$ -	257,886
Investments measured at net asset value (a)				
Mutual funds				1,426
Exchange traded funds				1,443,187
Investments at fair value				$ 1,702,499

Assets at Fair Value as of December 31, 2020

	Level 1	*Level 2*	*Level 3*	*Total*
Assets in the fair value hierarchy:				
Money market accounts	$ 15,228	$ -	$ -	$ 15,228
Alternative investments	-	35,763	-	35,763
	$ 15,228	$ 35,763	$ -	50,991
Investments measured at net asset value (a)				
Mutual funds				1,403
Exchange traded funds				1,420,020
Investments at fair value				$ 1,472,414

[a] In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the Statement of Financial Position.

(Note 3 continued on the following page)

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

The Organization's exchange traded funds and mutual funds are valued at NAV which is based on the fair value of the underlying investments of the funds, less any liabilities. The underlying investments of the funds are mainly equity and fixed income securities and short-term investments. The investment strategies of the Organization's exchange traded funds and mutual funds vary generally based on the investment objectives of the asset class of which they are a part. Such investment strategies include investments in fixed income securities and investments in equity securities in domestic and international markets for growth and value objectives as well as to replicate market indexes and to invest in emerging markets. The Organization had no unfunded commitments related to its exchange traded funds and mutual funds. The redemption of exchange traded funds and mutual funds is subject to the preference of the Organization and there are no restrictions on the timing of such redemptions.

Investment return on investments measured at fair value is summarized as follows for the years ended December 31:

	2021	2020
Realized gain on sale of investments	$ 938	$ 6,581
Investment fees	(628)	(100)
Unrealized gain on investments	(5,129)	254
Interest and dividend income	4,348	1,680
	$ (471)	$ 8,415

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	Method	Estimated Useful Lives (Years)	2021	2020
Building and improvements	Straight-line	40	$ 2,109,365	$ 2,053,456
Computer equipment	Straight-line	3	17,260	8,578
Furniture and fixtures	Straight-line	5	20,533	20,533
			2,147,158	2,082,567
Less: accumulated depreciation			(76,909)	(26,507)
			2,070,249	2,056,060
Land			623,016	623,016
			$ 2,693,265	$ 2,679,076

Depreciation expense for the years ended December 31, 2021 and 2020 was $50,402 and $26,507, respectively.

NOTE 5 – ACCRUED EXPENSES

The Organization's accrued expense balance consists of the following categories at December 31:

	2021	2020
Payroll	$ 428,112	$ 13,763
Paid time off	348,354	345,411
Deferred compensation	44,998	-
Client funds payable	1,667	1,667
Total	$ 823,131	$ 360,841

NOTE 6 – LINE OF CREDIT

The Organization has a $20,000 revolving line of credit with City National Bank. Bank advances on the credit line are payable on demand and carry a variable interest rate of calculated as the Prime Rate (3.25% at December 31, 2021) plus 275 basis points per annum. The interest rate has a floor of 3.50% and a ceiling of 16.00%. At December 31, 2021 and 2020 the interest rate was 6.00% and 7.50% per annum, respectively. The outstanding balance on the line of credit at December 31, 2021 and 2020 was none.

NOTE 7 – LEASE OBLIGATIONS

The Organization leased a temporary space while their building was being renovated. This space was used for five months at $5,000 a month and expired in May 2020.

The Organization is committed under a noncancelable operating lease for certain vehicles and equipment used in day-to-day operations. The leases expire on dates ranging from June 2021 through July 2025. The monthly lease payments range from $266 to $648. Future minimum lease payments under the noncancelable operating lease as of December 31, 2021 are as follows:

Years ending December 31:	
2022	$ 3,203
2023	3,203
2024	3,203
2025	1,602
	$ 11,211

Rent expense for the years ended December 31, 2021 and 2020 was $21,945 and $38,151 respectively.

NOTE 8 – DEFERRED COMPENSATION PLANS

Over the years the Organization has relied on Towers Perrin to conduct an executive compensation plan covering the years 2009 – 2013 and 2016. During those years, the executive director helped support the operations of the Organization's shelter program by deferring vacation benefits, retirement benefits, and wage increases. In 2021 the Organization engaged Krycler, Ervin, Taubman, Walhein to conduct a forensic accounting of money owed to the Executive Director for her operational support mentioned above, and determined that the Organization owed the Executive Director, $753,794. As a result, the Organization established a 457(b)-deferred compensation plan and a 457(f)-deferred compensation plan ("the Plans"). In 2021 $45,000 of the $753,794 in unpaid compensation was paid to the Executive Director via contributions to these plans, and an additional $15,000 was paid out as a bonus.

The remaining amount of deferred compensation owed to the Executive Director at December 31, 2021, $693,794 ($376,365 of accrued payroll and $317,429 of accrued paid time off), will be paid into the same 457(b)-deferred compensation plan and a 457(f)-deferred compensation plan described above. The Executive Director can elect to contribute up to 100% of her salary subject to annual IRS retirement plan contribution limits to the Plans. The 457(b) Plan vests in full upon retirement of the Executive Director. The vesting requirements for the 457(f) Plan are as follows:

Crediting Year	Vesting Date
2021	January 31, 2024
2022	January 31, 2024
2023	January 31, 2025
2024	January 31, 2026
2025	January 31, 2027
2026	January 31, 2028
2027	January 31, 2029

A section 457(b) and 457(f) Eligible Deferred Compensation Plan of a tax-exempt employer must provide that amounts deferred and earnings attributable to the deferrals be maintained as assets of the Organization. Thus, these amounts could be subject to the claims of an employer's general creditors. This treatment of plan assets as the property of an employer satisfies the requirement that the plans be "unfunded" in order to be exempt from most of ERISA's substantive provisions. The "unfunded" status applies to both elective deferrals made by a participant and nonelective deferrals made by an employer on behalf of a participant and any earnings on both. The balance of the Plans' assets at December 31, 2021 and 2020 was $44,998 and none, respectively.

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH SUMMARIZED COMPARATIVE TOTALS FOR DECEMBER 31, 2020

NOTE 9 – RETIREMENT PLAN

The Organization has established a non-qualified 403(b) retirement plan ("the Plan") for the benefit of all eligible employees, as defined. Employees can make voluntary contributions to the Plan up to 100% of their annual salary. The Organization does not make any discretionary nor matching contributions to the Plan. During the year ended December 31, 2021 $234,369 in voluntary fiduciary correction program payments were made by the Organization to compensate employees eligible to participate in the plan but were not properly notified by the Organization of their eligibility to do so.

NOTE 10 – PPP LOAN

On April 16, 2020, the Organization received loan proceeds in the amount of $107,800 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four-week period. The unforgiven portion of the PPP loan is payable over five years at an interest rate of 1%, with a deferral of payments for the first six months. On March 31, 2021, the PPP loan was forgiven in full.

The proceeds for the loan are accounted for under the conditional contribution model per ASC 958-605. Therefore, the funds from the PPP Loan are accounted for as a refundable advance until the conditions of the loan have been substantially met or explicitly waived by the donor. The refundable conditions of the loan are expenditure of qualifying business expenses outlined above during the covered period elected by the Organization. During the year ended December 31, 2020 the Organization recognized all $107,800 of PPP Loan funds as grant revenue because at least $107,800 of qualifying payroll expenses were spent by the Organization during the covered period which all fell within that fiscal year.

NOTE 11 – AVAILABILITY OF FINANCIAL ASSETS

The following reflects The Organization's financial assets as of December 31, 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing in board designated funds that could be drawn upon if the governing board approves that action. However, amounts already appropriated from a board designated fund for general expenditure within one year of December 31, 2021 have not been subtracted as unavailable. There were no such board designated funds as of December 31, 2021 and 2020.

(Note 11 continued on the following page)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH SUMMARIZED COMPARATIVE TOTALS FOR DECEMBER 31, 2020

NOTE 11 – AVAILABILITY OF FINANCIAL ASSETS (Continued)

The Organization's financial assets available within one year of December 31, 2021 and 2020 for general expenditure are as follows:

Financial assets, at year end	**2021**	**2020**
Cash and cash equivalents	$ 354,046	$ 386,440
Investments	1,702,499	1,472,414
Less those unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with purpose restrictions	-	-
Total	$ 2,056,545	$ 1,858,854

As part of The Organization's liquidity management practices, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 12 – SUBSEQUENT EVENTS

Events subsequent to December 31, 2021 have been evaluated through May 24, 2022, the date at which the Organization's audited financial statements were to be issued. No events requiring disclosures have occurred through this date.