

CHILDREN OF THE NIGHT, INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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INDEPENDENT AUDITOR'S REPORT


Board of Directors of
Children of the Night, Inc.
Van Nuys, California

We have audited the accompanying statement of financial position of Children of the Night, Inc. (a non-profit corporation) as of December 31, 2009 and 2008, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Children of the Night, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2008 financial statements and, in our report dated April 30, 2009; we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children of the Night, Inc. as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Licker + Ozurovich, CPAs



Los Angeles, California
February 23, 2010

**CHILDREN OF THE NIGHT, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 145,048	\$ 34,658
Grants receivable	149,397	58,439
Prepaid expenses	<u>5,320</u>	<u>15,477</u>
Total Current Assets	299,765	108,574
Property and equipment – net	<u>1,389,994</u>	<u>1,440,226</u>
TOTAL ASSETS	<u><u>\$ 1,689,759</u></u>	<u><u>\$ 1,548,800</u></u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 72,093	\$ 102,392
Client funds payable	2,300	2,300
Accrued payroll	12,271	10,588
Accrued vacation	<u>71,968</u>	<u>56,596</u>
Total Current Liabilities	<u>158,632</u>	<u>171,876</u>
NET ASSETS		
Unrestricted	1,376,127	1,360,257
Temporarily restricted	<u>155,000</u>	<u>16,667</u>
Total Net Assets	<u>1,531,127</u>	<u>1,376,924</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,689,759</u></u>	<u><u>\$ 1,548,800</u></u>

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>TOTAL</u>	
			<u>2009</u>	<u>2008</u>
Support				
Foundations	\$ 581,577	\$ 190,000	\$ 771,577	\$ 704,687
Individuals	630,119	-	630,119	722,393
Corporations	174,119	-	174,119	187,926
Bequests	370,246	-	370,246	-
Government	-	-	-	5,000
Total Support	<u>1,756,061</u>	<u>190,000</u>	<u>1,946,061</u>	<u>1,620,006</u>
Revenue				
Interest and dividends	-	-	-	1,627
Partnership income	11,668	-	11,668	11,550
Total Revenue	<u>11,668</u>	<u>-</u>	<u>11,668</u>	<u>13,177</u>
Donated Goods and Services	<u>14,942</u>	<u>-</u>	<u>14,942</u>	<u>92,949</u>
Total Support, Revenue and Donated Goods and Services	<u>1,782,671</u>	<u>190,000</u>	<u>1,972,671</u>	<u>1,726,132</u>
Net Assets Released from Restrictions				
Restrictions satisfied by payments	51,667	(51,667)	-	-
Total Support, Revenue and Reclassifications	<u>1,834,338</u>	<u>138,333</u>	<u>1,972,671</u>	<u>1,726,132</u>
Expenses				
Program Services				
Children's services	1,568,955	-	1,568,955	1,745,571
Supporting Services				
Management and general	122,391	-	122,391	144,176
Fund raising	127,122	-	127,122	142,631
Total Supporting Services	249,513	-	249,513	286,807
Total Expenses	<u>1,818,468</u>	<u>-</u>	<u>1,818,468</u>	<u>2,032,378</u>
CHANGES IN NET ASSETS	<u>15,870</u>	<u>138,333</u>	<u>154,203</u>	<u>(306,246)</u>
NET ASSETS, Beginning of the Year	<u>1,360,257</u>	<u>16,667</u>	<u>1,376,924</u>	<u>1,683,170</u>
NET ASSETS, End of the Year	<u>\$ 1,376,127</u>	<u>\$ 155,000</u>	<u>\$ 1,531,127</u>	<u>\$ 1,376,924</u>

See independent auditor's report and accompanying notes.

**CHILDREN OF THE NIGHT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	Program Services	Supporting Services			Total	
	Children's Services	Management and General	Fund Raising	Total	2009	2008
Salaries, payroll taxes and employee benefits	\$ 974,060	\$ 102,419	\$ 36,907	\$ 139,326	\$ 1,113,386	\$ 1,210,169
Client support services	166,253	-	-	-	166,253	194,977
Outside services	36,848	393	19,204	19,597	56,445	64,057
Depreciation	66,173	-	-	-	66,173	77,689
Insurance	25,783	1,109	832	1,941	27,724	36,395
Repairs and maintenance	85,406	6,127	-	6,127	91,533	73,655
Postage and direct mail	8,845	1,106	35,842	36,948	45,793	56,721
Utilities	35,965	-	-	-	35,965	36,131
Telephone	16,433	446	-	446	16,879	19,302
Supplies	24,108	2,836	1,418	4,254	28,362	26,460
Printing	19,153	1,005	3,532	4,537	23,690	28,658
School supplies	17,127	-	-	-	17,127	10,339
Advertising	225	-	19,890	19,890	20,115	19,465
Dues and subscriptions	15,837	-	1,377	1,377	17,214	11,921
Bank charges	1,909	239	239	478	2,387	2,225
Staff development	11,954	-	-	-	11,954	18,917
Legal and audit	5,353	2,757	-	2,757	8,110	9,411
Licensing fees	7,241	805	-	805	8,046	7,552
Travel	9,814	-	5,453	5,453	15,267	15,158
Interest	12,292	1,536	1,536	3,072	15,364	7,356
Auto	4,253	532	360	1,064	5,317	4,599
Small equipment	8,981	937	360	1,297	10,278	7,807
Miscellaneous	-	144	-	144	144	465
Total Expenses Before Donated Goods and Services	1,554,013	122,391	127,122	249,513	1,803,526	1,939,429
Donated goods and services	14,942	-	-	-	14,942	92,949
Total Expenses	\$ 1,568,955	\$ 122,391	\$ 127,122	\$ 249,513	\$ 1,818,468	\$ 2,032,378

CHILDREN OF THE NIGHT, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 154,203	\$ (306,246)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	66,173	77,689
(Increase) Decrease in assets		
Grants receivable	(90,958)	44,425
Prepaid expenses	10,157	(1,488)
Increase (Decrease) in liabilities		
Accounts payable	(30,299)	31,649
Accrued expenses	1,683	(25,400)
Accrued vacation	15,372	13,000
Net cash (used) provided by operating activities	126,331	(166,371)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(15,941)	(4,306)
NET INCREASE (DECREASE) IN CASH	110,390	(170,677)
CASH AND CASH EQUIVALENTS, beginning of the year	<u>34,658</u>	<u>205,335</u>
CASH AND CASH EQUIVALENTS, end of the year	<u>\$ 145,048</u>	<u>\$ 34,658</u>
Supplementary information		
Interest paid	<u>\$ 15,365</u>	<u>\$ 7,356</u>

See independent auditor's report and accompanying notes.

**CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – ORGANIZATION

Children of the Night, Inc. (the Organization) is a California non-profit corporation incorporated in June of 1979. Children of the Night is a privately funded non-profit organization established in 1979 and dedicated to rescuing America's children from the ravages of prostitution.

The Children of the Night home is open to child prostitutes throughout the United States, and the Children of the Night hotline is ready and able to rescue these children 24 hours a day. Our hotline staff works closely with law enforcement to rescue children from vile, dominating pimps.

Our home features an on-site school and college placement program. After youngsters complete our rigorous and comprehensive program of academic and life-skills education, caseworkers are available to provide ongoing case management to hundreds of graduates.

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.

Basis of Accounting

The financial statements of the Organization have been prepared using the accrual basis of accounting.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (FAS) No. 117, *Financial Statements of Not-for-Profit Organizations* (FAS-117) (ASC 958-205-45-15). Under SFAS No. 117, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The organization has no permanently restricted net assets.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Organization considers all debt instruments purchased with a maturity of three months or less to be cash equivalents. The Organization maintains cash balances at one financial institution. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2009, the uninsured amounts held at the financial institution was \$34,670. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Restricted and Unrestricted Revenue and Support

The Organization accounts for grants and contributions in accordance with FAS No. 116, *Accounting for Contributions Received and Contributions Made* (FAS-116) (ASC 958-605-45-3-6). Grants and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

See independent auditor's report.

**CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS**

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, 2009 and 2008, advertising costs totaled \$20,115 and \$19,465, respectively.

Tax Status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, as amended, and is exempt from California franchise taxes under Section 23701(d) of the State Revenue and Taxation Code. In addition, the Organization qualifies for the charitable deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Estimates

The preparation of the 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.

Expense Allocation

The costs of providing the program and the supporting services have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets and the Statement of Functional Expenses. Accordingly, certain costs have been allocated between the program and the supporting services in reasonable ratios determined by management.

NOTE 3 – PROPERTY AND EQUIPMENT

All acquisition of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of the assets are capitalized. Property and equipment are carried at cost and are depreciated using the straight-line method over the estimated useful life of the asset.

Property and equipment consisted of the following at December 31:

	Method	Estimated Useful Lives (Years)	2009	2008
Building	Straight-line	40	\$ 1,805,744	\$ 1,805,744
Vehicles	Straight-line	5 – 7	48,443	48,443
Furniture and fixtures	Straight-line	5 – 7	213,214	213,214
Building improvements	Straight-line	7	67,690	51,749
			<u>2,135,091</u>	<u>2,119,150</u>
Less accumulated depreciation			<u>(1,058,453)</u>	<u>(992,280)</u>
			1,076,638	1,126,870
Land			263,356	263,356
Mural			50,000	50,000
			<u>\$ 1,389,994</u>	<u>\$ 1,440,226</u>

See independent auditor's report.

**CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – PROPERTY AND EQUIPMENT (Continued)

Depreciation expense for the years ended December 31, 2009 and 2008, was \$66,173 and \$77,689, respectively.

NOTE 4 – ACCRUED VACATION AND SICK LEAVE

Accrued employee vacation benefits are recognized as liabilities of the Organization. The value of accrued employee vacation benefits at December 31, 2009 and 2008, was \$71,968 and \$56,596, respectively.

Sick leave benefits are accumulated for each employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as liabilities of the Organization since payment of such benefits is not probable. Therefore, sick leave benefits are recorded as expenditures in the period in which the sick leave is taken.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets of the Organization are restricted as to time for the following purposes as of December 31:

	<u>2009</u>	<u>2008</u>
General Support	<u>\$ 155,000</u>	<u>\$ 16,667</u>

NOTE 6 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrences of other events specified by donors.

	<u>2009</u>	<u>2008</u>
General Support	<u>\$ 51,667</u>	<u>\$ 25,000</u>

NOTE 7 – DONATED GOODS AND SERVICES

The value of donated goods and services included as contributions in the financial statements and corresponding expenses are as follows for the years ended December 31:

	<u>2009</u>	<u>2008</u>
Goods	<u>\$ 14,942</u>	<u>\$ 92,949</u>

Also a substantial number of unpaid volunteers have contributed their time in conjunction with the Organization's programs and services. Consistent with SFAS No. 116, the financial statements do not reflect the value of those contributed services because, although clearly significant, specialized skills are not necessary to perform these services.

See independent auditor's report.