

CHILDREN OF THE NIGHT, INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of Children of the Night, Inc., which comprise the statement of financial position as of December 31, 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 required 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Children of the Night, Inc.'s December 31, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 25, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ozurovich & Associates

Rancho Santa Margarita, California
April 1, 2021

CHILDREN OF THE NIGHT, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

	2020	2019
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 386,440	\$ 822,698
Investments (Note 3)	1,472,414	1,000
Prepaid expenses	29,099	15,108
<i>Total current assets</i>	1,887,953	838,806
Property and equipment - net (Note 4)	2,679,076	2,504,438
Deposits	-	5,000
TOTAL ASSETS	\$ 4,567,029	\$ 3,348,244
LIABILITIES		
<i>Current liabilities</i>		
Accounts payable	\$ 47,595	\$ 58,024
Accrued expenses (Note 5)	360,841	370,581
<i>Total current liabilities</i>	408,436	428,605
<i>Long-term liabilities</i>		
Line of credit (Note 6)	-	19,718
<i>Total long-term liabilities</i>	-	19,718
<i>Total liabilities</i>	408,436	448,323
NET ASSETS		
Net assets without donor restrictions	4,158,593	2,899,921
TOTAL LIABILITIES AND NET ASSETS	\$ 4,567,029	\$ 3,348,244

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

	<u>2020</u>	<u>2019</u>
SUPPORT		
Foundations	\$ 293,934	\$ 247,873
Individuals	2,091,665	1,020,020
Corporations	51,551	159,300
Bequests	163,639	5,000
Grants (Note 9)	107,800	-
Total Support	<u>2,708,589</u>	<u>1,432,193</u>
REVENUE		
Investment return (Note 3)	8,415	8,815
Partnership income	17,158	7,255
Other income	1,161	-
Total Revenue	<u>26,734</u>	<u>16,070</u>
DONATED GOODS AND SERVICES	<u>30,892</u>	<u>136,600</u>
Total Support and Revenue	<u>2,766,215</u>	<u>1,584,863</u>
OPERATING EXPENSES		
Program Services		
Children's services	<u>1,319,431</u>	<u>1,421,699</u>
Supporting Services		
Management and general	80,800	149,997
Fund raising	107,312	107,225
Total Supporting Services	<u>188,112</u>	<u>257,222</u>
TOTAL OPERATING EXPENSES	<u>1,507,543</u>	<u>1,678,921</u>
OTHER INCOME/(EXPENSES)		
Property and equipment selling fees	-	(150,643)
Gain on disposal of property and equipment	-	2,449,180
Total Other Income	<u>-</u>	<u>2,298,537</u>
CHANGE IN NET ASSETS	1,258,672	2,204,479
NET ASSETS, Beginning of year	<u>2,899,921</u>	<u>695,442</u>
NET ASSETS, End of year	<u>\$ 4,158,593</u>	<u>\$ 2,899,921</u>

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

	2020				2019	
	Program Services	Supporting Services			TOTAL	TOTAL
	Children's Services	Management and General	Fund Raising	<i>Subtotal</i>		
Salaries and wages	\$ 720,597	\$ 34,424	\$ 29,154	\$ 63,578	\$ 784,175	\$ 719,479
Payroll taxes	49,991	2,388	2,023	4,411	54,402	50,850
Employee benefits	61,451	2,936	2,486	5,422	66,873	76,804
Salaries, payroll taxes and employee benefits	<u>832,039</u>	<u>39,748</u>	<u>33,663</u>	<u>73,411</u>	<u>905,450</u>	<u>847,133</u>
Advertising	2,220	740	21,704	22,444	24,664	16,756
Auto	7,673	852	-	852	8,525	9,289
Bank charges	2,046	255	256	511	2,557	8,369
Case management - direct services	63,317	-	-	-	63,317	33,115
Depreciation and amortization	26,507	-	-	-	26,507	20,101
Dues and subscriptions	3,883	158	3,883	4,041	7,924	13,769
Emergency transportation	9,453	-	-	-	9,453	11,093
Fundraising	-	-	20,602	20,602	20,602	10,099
Insurance	42,710	3,796	949	4,745	47,455	64,507
Interest	729	91	91	182	911	10,502
Legal and audit	7,350	3,150	-	3,150	10,500	10,161
Licensing fees	480	53	-	53	533	11,024
Outreach	38,653	-	-	-	38,653	38,038
Outside services	31,434	3,929	3,929	7,858	39,292	65,921
Postage and direct mail	1,624	541	8,661	9,202	10,826	13,519
Printing	13,917	118	2,793	2,911	16,828	26,810
Rent	25,156	2,959	1,480	4,439	29,595	37,325
Repairs and maintenance	71,706	13,954	-	13,954	85,660	56,052
School supplies	3,920	-	-	-	3,920	11,131
Small equipment	13,537	1,692	1,692	3,384	16,921	7,717
Staff development	19,151	1,126	2,253	3,379	22,530	18,577
Supplies	23,996	2,823	1,412	4,235	28,231	22,001
Taxes and fees	2,419	303	302	605	3,024	26,986
Telephone	27,032	1,423	-	1,423	28,455	21,585
Travel	10,511	-	553	553	11,064	109,727
Utilities	13,254	-	-	-	13,254	21,014
Total expenses before donated goods and services	<u>1,294,717</u>	<u>77,711</u>	<u>104,223</u>	<u>181,934</u>	<u>1,476,651</u>	<u>1,542,321</u>
Donated goods and services	<u>24,714</u>	<u>3,089</u>	<u>3,089</u>	<u>6,178</u>	<u>30,892</u>	<u>136,600</u>
Total Expenses	<u>\$ 1,319,431</u>	<u>\$ 80,800</u>	<u>\$ 107,312</u>	<u>\$ 188,112</u>	<u>\$ 1,507,543</u>	<u>\$ 1,678,921</u>

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,258,672	\$ 2,204,479
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities		
Depreciation	26,507	20,101
Donated stock	(289,823)	(172,652)
Realized (gain) on sale of investments	(6,581)	(1,665)
Unrealized (gain) on sale of investments	(254)	-
(Gain) on disposal of property and equipment	-	(2,449,180)
(Increase) decrease in assets		
Grants receivable	-	1,161
Prepaid expenses	(13,991)	12,327
Deposits	5,000	(5,000)
Increase (decrease) in liabilities		
Accounts payable	(10,429)	(42,618)
Accrued expenses	(9,740)	21,840
Net cash provided/(used) by operating activities	959,361	(411,207)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(201,145)	(2,504,438)
Proceeds from sale of property and equipment	-	3,590,000
Purchases of investments	247,565	-
Proceeds from sale of donated stock and investments	(1,422,321)	174,116
Net cash (used)/provided by investing activities	(1,375,901)	1,259,678
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	(19,718)	(428,863)
Proceeds from line of credit	-	100,000
Principle payments on lease obligation	-	(14,551)
Net cash (used) by financing activities	(19,718)	(343,414)
NET (DECREASE)/INCREASE IN CASH	(436,258)	505,057
CASH AND CASH EQUIVALENTS, beginning of year	822,698	317,641
CASH AND CASH EQUIVALENTS, end of year	\$ 386,440	\$ 822,698
Supplemental Cash Flow Disclosures:		
Interest paid	\$ 911	\$ 10,502

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR DECEMBER 31, 2019

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, all Children of the Night programs have been exclusively funded by private donors.

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)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR DECEMBER 31, 2019

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.

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.

Reclassifications

Certain reclassifications were made to prior year amounts in order to conform to current year presentation. None of these reclassifications had an effect on the total change in net assets or total net asset balances.

(Note 2 continued on the following page)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR DECEMBER 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2020 and 2019 the Organization received donated goods and services in the amounts of \$30,892 and \$136,600, respectively. The contributions were recorded at their fair market value at the date of donation. Equal amounts were also recorded as donated goods and services expense. Also, a substantial number of unpaid volunteers have contributed their time in conjunction with the Organization's programs and services.

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, 2016 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, 2016 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.

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, 2020 and 2019 the uninsured amounts were \$144,283 and \$637,162, respectively.

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, 2020 and 2019, advertising costs totaled \$24,664 and \$16,756, respectively.

(Note 2 continued on the following page)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR DECEMBER 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Donated works of art are capitalized at their estimated fair value on the date of donation or completion, and are not depreciated, but instead evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

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.

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, 2019, from which the summarized information was derived.

(Note 2 continued on the following page)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR DECEMBER 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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: bank charges, interest, rent, repairs and maintenance, small equipment, staff development and supplies.

New Accounting Pronouncements

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, 2019. Early adoption is not permitted. The guidance permits the use of either a retrospective or cumulative effect transition method. The Organization is currently evaluating the impact that the adoption of ASU 2014-09 will have on its financial statements.

(Note 2 continued on the following page)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR DECEMBER 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

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.

Guidance for Contributions Received and Made – In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Made. This update requires a recipient of funds from a resource provider to determine if those funds should be classified as a reciprocal exchange transaction or as a contribution based on the value that the resource provider is receiving from the transaction. Additionally, the update requires recipient organizations to determine whether a contribution is conditional based on if the agreement includes barriers that must be overcome, and either a right of return of assets transferred, or a right of release of a resource provider's obligation to transfer assets. If the agreement includes both characteristics, the recipient is not entitled to the transferred assets, and therefore does not recognize the associated revenues, until the barrier is overcome. ASU No. 2018-08 is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Organization has adopted ASU 2018-08 in these financial statements on a retrospective basis. No adjustments to net assets as of January 1, 2019 was necessary and adoption of the new guidance did not have a material impact on the Organization's 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)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR DECEMBER 31, 2019

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, fixed income securities and mutual funds.
- 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, 2020 and 2019.

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 following tables set forth by level, within the fair value hierarchy, the Organization's assets measured at fair value as of December 31:

<i>Assets at Fair Value as of December 31, 2020</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Money market accounts	\$ 15,228	\$ -	\$ -	\$ 15,228
Fixed income securities	1,420,020	-	-	1,420,020
Mutual funds	1,403	-	-	1,403
Alternative investments	-	35,763	-	35,763
	\$ 1,436,651	\$ 35,763	\$ -	\$ 1,472,414

(Note 3 continued on the following page)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR DECEMBER 31, 2019

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

<i>Assets at Fair Value as of December 31, 2019</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Money market accounts	\$ <u>1,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,000</u>

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

	2020	2019
Realized gain on sale of investments	\$ 6,581	\$ 1,665
Investment fees	(100)	(429)
Unrealized gain on investments	254	-
Interest and dividend income	1,680	7,579
	\$ 8,415	\$ 8,815

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	Method	Estimated Useful Lives (Years)	2020	2019
Building and improvements	Straight-line	40	\$ 2,053,456	\$ -
Computer equipment	Straight-line	3	8,578	-
Furniture and fixtures	Straight-line	5	20,533	-
			2,082,567	-
Less: accumulated depreciation			(26,507)	(-)
			2,056,060	-
Construction in process			-	1,881,422
Land			623,016	623,016
			\$ 2,679,076	\$ 2,504,438

Depreciation expense for the years ended December 31, 2020 and 2019 was \$26,507 and \$20,101, respectively.

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NOTE 5 - ACCRUED EXPENSES

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

	<u>2020</u>	<u>2019</u>
Payroll	\$ 13,763	\$ 29,158
Paid time off	345,411	339,756
Client funds payable	1,667	1,667
Total	<u>\$ 360,841</u>	<u>\$ 370,581</u>

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, 2020) plus 275 basis points per annum. The interest rate has a floor of 3.50% and a ceiling of 16.00%. At December 31, 2020 and 2019 the interest rate was 7.50% and 6.00% per annum, respectively.

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 a vehicle used in day-to-day operations. The lease began April 6, 2018 and is currently scheduled to expire on June 6, 2021. The monthly lease payment is \$648. Future minimum lease payments under the noncancelable operating lease as of December 31, 2020 are as follows:

Years ending December 31:	
2021	<u>\$ 3,888</u>

Rent expense for the years ended December 31, 2020 and 2019 was \$38,120 and \$46,614 respectively.

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NOTE 8 – NET ASSETS RELEASED FROM DONOR RESTRICTIONS

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

	2020	2019
<i>Expiration of time restrictions:</i>	\$ -	\$ 1,161

NOTE 9 – 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.

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 the fiscal year ended December 31, 2020.

NOTE 10 – AVAILABILITY OF FINANCIAL ASSETS

The following reflects The Organization’s financial assets as of December 31, 2020, 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, 2020 have not been subtracted as unavailable. There were no such board designated funds as of December 31, 2020 and 2019.

(Note 10 continued on the following page)

CHILDREN OF THE NIGHT, INC.
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NOTE 10 – AVAILABILITY OF FINANCIAL ASSETS (Continued)

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

<i>Financial assets, at year end</i>	
Cash and cash equivalents	\$ 386,440
Investments	1,472,414
<i>Less those unavailable for general expenditures within one year due to:</i>	
<i>Contractual or donor-imposed restrictions:</i>	<u>-</u>
Total	<u>\$ 1,858,854</u>

The Organization's financial assets available within one year of December 31, 2019 for general expenditure are as follows:

<i>Financial assets, at year end</i>	
Cash and cash equivalents	\$ 822,698
Investments	1,000
<i>Less those unavailable for general expenditures within one year due to:</i>	
<i>Contractual or donor-imposed restrictions:</i>	<u>-</u>
Total	<u>\$ 823,698</u>

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 11 – SUBSEQUENT EVENTS

Events subsequent to December 31, 2020 have been evaluated through April 1, 2021, the date at which the Organization's audited financial statements were to be issued. No events requiring disclosures have occurred through this date.