

CHILDREN OF THE NIGHT, INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2022
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2021)

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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, 2022, 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, 2022, 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, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 24, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ozurovich & Associates

Rancho Santa Margarita, California
May 10, 2023

CHILDREN OF THE NIGHT, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2021)

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>2022</u>	<u>2021</u>
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 568,632	\$ -	\$ 568,632	\$ 354,046
Investments (Note 3)	1,007,938	-	1,007,938	1,702,499
Prepaid expenses	29,099	-	29,099	29,099
Total current assets	<u>1,605,669</u>	<u>-</u>	<u>1,605,669</u>	<u>2,085,644</u>
Property and equipment - net (Note 4)	2,634,680	-	2,634,680	2,693,265
Charitable remainder trusts (Notes 3 and 5)	-	906,222	906,222	-
Other assets (Notes 3 and 8)	151,971	-	151,971	44,998
TOTAL ASSETS	<u>\$ 4,392,320</u>	<u>\$ 906,222</u>	<u>\$ 5,298,542</u>	<u>\$ 4,823,907</u>
LIABILITIES				
<i>Current liabilities</i>				
Accounts payable	\$ 63,507	\$ -	\$ 63,507	\$ 34,725
Accrued expenses (Note 6)	1,026,813	-	1,026,813	823,131
Total current liabilities	<u>1,090,320</u>	<u>-</u>	<u>1,090,320</u>	<u>857,856</u>
NET ASSETS				
Net assets without donor restrictions	3,302,000	-	-	-
Net assets with donor restrictions (Note 11)	-	906,222	4,208,222	3,966,051
TOTAL NET ASSETS	<u>3,302,000</u>	<u>906,222</u>	<u>4,208,222</u>	<u>3,966,051</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,392,320</u>	<u>\$ 906,222</u>	<u>\$ 5,298,542</u>	<u>\$ 4,823,907</u>

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2021)

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>2022</u>	<u>2021</u>
SUPPORT				
Foundations	\$ 593,588	\$ -	\$ 593,588	\$ 466,710
Individuals	982,927	-	982,927	1,490,141
Corporations	120,170	-	120,170	86,927
Bequests	46,030	1,069,760	1,115,790	160,334
Total Support	<u>1,742,715</u>	<u>1,069,760</u>	<u>2,812,475</u>	<u>2,204,112</u>
REVENUE				
Investment return	(13,574)	(163,538)	(177,112)	(471)
Partnership income	19,200	-	19,200	16,982
Other income	-	-	-	15
Total Revenue	<u>5,626</u>	<u>(163,538)</u>	<u>(157,912)</u>	<u>16,526</u>
DONATED GOODS AND SERVICES	<u>108,444</u>	<u>-</u>	<u>108,444</u>	<u>98,776</u>
Total Support and Revenue	<u>1,856,785</u>	<u>906,222</u>	<u>2,763,007</u>	<u>2,319,414</u>
OPERATING EXPENSES				
Program Services				
Children's services	2,182,017	-	2,182,017	2,140,499
Total Program Services	<u>2,182,017</u>	<u>-</u>	<u>2,182,017</u>	<u>2,140,499</u>
Supporting Services				
Management and general	246,748	-	246,748	262,280
Fund raising	92,071	-	92,071	109,177
Total Supporting Services	<u>338,819</u>	<u>-</u>	<u>338,819</u>	<u>371,457</u>
TOTAL OPERATING EXPENSES	<u>2,520,836</u>	<u>-</u>	<u>2,520,836</u>	<u>2,511,956</u>
CHANGE IN NET ASSETS	(664,051)	906,222	242,171	(192,542)
NET ASSETS, Beginning of year	<u>3,966,051</u>	<u>-</u>	<u>3,966,051</u>	<u>4,158,593</u>
NET ASSETS, End of year	<u>\$ 3,302,000</u>	<u>\$ 906,222</u>	<u>\$ 4,208,222</u>	<u>\$ 3,966,051</u>

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2021)

	2022			2021	
	Program Services	Supporting Services		TOTAL	TOTAL
	Children's Services	Management and General	Fund Raising		
Salaries and wages	\$ 1,180,053	\$ 136,847	\$ 50,500	\$ 1,367,400	\$ 1,426,198
Payroll taxes	66,857	9,111	3,500	79,468	64,260
Employee benefits	58,905	29,160	538	88,603	306,164
Salaries, payroll taxes and employee benefits	<u>1,305,815</u>	<u>175,118</u>	<u>54,538</u>	<u>1,535,471</u>	<u>1,796,622</u>
Advertising	32,552	-	599	33,151	17,527
Auto	100	-	-	100	17,189
Bank fees	1,113	2,681	438	4,232	3,808
Client services	123,460	995	99	124,554	81,216
Depreciation	66,339	7,371	-	73,710	50,402
Dues and subscriptions	16,295	826	326	17,447	7,612
Emergency transportation	14,849	-	-	14,849	8,246
Fundraising events	-	-	25,137	25,137	25,277
Insurance	78,872	3,115	4,939	86,926	56,752
Interest	-	502	-	502	14
Legal and audit	10,015	1,432	556	12,003	10,607
Licensing	-	5	-	5	25
Outreach	148,030	-	-	148,030	55,774
Outside services	93,651	27,965	498	122,114	78,619
Postage	3,868	675	2,799	7,342	8,333
Printing	2,653	6,750	1,285	10,688	16,799
Rent	3,964	587	587	5,138	4,756
Repairs and maintenance	50,727	5,133	-	55,860	42,551
Repairs and maintenance - program	17,613	966	-	18,579	19,752
School supplies	3,736	-	-	3,736	7,328
Small equipment	6,529	1,052	-	7,581	6,489
Staff development	13,153	2,049	-	15,202	21,591
Supplies	15,159	1,800	270	17,229	16,387
Taxes and fees	247	4,492	-	4,739	7,411
Telephone	26,692	1,187	-	27,879	26,471
Travel	21,962	-	-	21,962	2,621
Utilities	16,179	2,047	-	18,226	23,001
Total expenses before donated goods and services	<u>2,073,573</u>	<u>246,748</u>	<u>92,071</u>	<u>2,412,392</u>	<u>2,413,180</u>
Donated services	<u>108,444</u>	<u>-</u>	<u>-</u>	<u>108,444</u>	<u>98,776</u>
Total Expenses	<u>\$ 2,182,017</u>	<u>\$ 246,748</u>	<u>\$ 92,071</u>	<u>\$ 2,520,836</u>	<u>\$ 2,511,956</u>

CHILDREN OF THE NIGHT, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 242,171	\$ (192,542)
Adjustments to reconcile change in net assets to net cash (used)/provided by operating activities		
Depreciation	73,710	50,402
Donated stock	(34,110)	(2,557)
Realized (gain) on sale of investments	16,409	(938)
Unrealized (gain) on sale of investments	11,683	5,129
Change in value of charitable remainder trusts	(906,222)	-
(Increase) decrease in assets		
Deposits	(106,973)	(44,998)
Increase (decrease) in liabilities		
Accounts payable	28,782	(12,870)
Accrued expenses	203,682	462,290
Net cash (used)/provided by operating activities	(470,868)	263,916
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(15,125)	(64,591)
Purchases of investments	(214,978)	1,982,338
Proceeds from sale of donated stock and investments	915,557	(2,214,057)
Net cash provided/(used) by investing activities	685,454	(296,310)
NET INCREASE/(DECREASE) IN CASH	214,586	(32,394)
CASH AND CASH EQUIVALENTS, beginning of year	354,046	386,440
CASH AND CASH EQUIVALENTS, end of year	\$ 568,632	\$ 354,046
Supplemental Cash Flow Disclosures:		
Interest paid	\$ 502	\$ 14

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021

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)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021

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, 2021, from which the summarized information was derived.

Risks and Uncertainties

Since 1979 Children of the Night has been supported by foundations, corporations and individuals and at this time does not expect any events jeopardizing required support for its programs. However, overall economic conditions such as high rates of inflation could contribute to potential reductions in private donations as the disposable incomes of potential donors are affected by these economic factors. 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.

(Note 2 continued on the following page)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021

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, 2019 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, 2018 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, 2022 and 2021 the Organization received donated services in the amounts of \$108,444 and \$98,776, 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)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021

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, 2022 and 2021 the uninsured amounts were \$318,141 and \$111,278, 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.

Charitable Remainder Trusts

Contributions, including unconditional promises to give, are recognized as revenue in the period received. The Organization is also a beneficiary in certain trusts. The Organization recognizes as revenue the present value of the estimated future benefits to be received upon distribution of irrevocable trusts for which the Organization is a beneficiary. When these gifts are revocable in nature, they are not reflected in the financial statements.

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.

(Note 2 continued on the following page)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Keyman Life Insurance

The Organization established a key man life insurance policy on behalf of its Executive Director during 2022. The Organization pays the premiums on behalf of the Executive Director, and therefore, they are included as part of her taxable income for income tax purposes. Upon the death of the Executive Director the Organization will receive half of the death benefit and the Executive Director's heirs will receive the other half of the death benefit as stipulated in the life insurance policy.

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.

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, 2022 and 2021, advertising costs totaled \$33,151 and \$17,527, respectively.

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.

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.

(Note 3 continued on the following page)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

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:

- 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's Level 3 assets consist of charitable remainder trusts.

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.

Equity securities: Valued at the daily closing price as reported by the stock exchange on which they are actively traded.

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.

(Note 3 continued on the following page)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

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.

Deferred compensation plan assets, Hedge funds and Commodities: Valued at the daily closing price as reported by the fund. Hedge funds and commodities 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 hedge funds and commodities held by the Organization are deemed to be actively traded.

Charitable remainder trusts: Valued at the present value of the estimated future benefits to be received upon distribution of irrevocable trusts for which the Organization is a beneficiary.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets measured at fair value as of December 31, 2022 and 2021.

Assets at Fair Value as of December 31, 2022

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets in the fair value hierarchy:				
Money market accounts	\$ 71,149	\$ -	\$ -	\$ 71,149
Equity securities	34,702			34,702
Alternative investments	-	34,499	-	34,499
Charitable remainder trusts	-	-	906,222	906,222
	<u>\$ 105,851</u>	<u>\$ 34,499</u>	<u>\$ 906,222</u>	<u>1,046,572</u>
Investments measured at net asset value (a)				
Mutual funds				61,948
Exchange traded funds				<u>957,611</u>
Investments at fair value				<u>\$ 2,066,131</u>

(Note 3 continued on the following page)

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NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

<i>Assets at Fair Value as of December 31, 2021</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Assets in the fair value hierarchy:				
Money market accounts	\$ 249,574	\$ -	\$ -	\$ 249,574
Alternative investments	-	33,312	-	33,312
	\$ 249,574	\$ 33,312	\$ -	282,886
Investments measured at net asset value (a)				
Mutual funds				21,424
Exchange traded funds				1,443,187
Investments at fair value				\$ 1,747,497

(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.

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.

(Note 3 continued on the following page)

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NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the year ended December 31, 2022.

	<u><i>Charitable Remainder Trusts</i></u>
Balance, beginning of year	\$ -
Acquisitions	1,069,760
Unrealized (loss)	(123,764)
Interest and dividend income	109
Operating expenses	(52,148)
Change in present value discount	12,265
Balance, end of year	<u>\$ 906,222</u>

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

	<u>2022</u>	<u>2021</u>
Realized (loss)/gain on sale of investments	\$ (16,409)	\$ 938
Investment fees	(15,877)	(628)
Unrealized (loss) on investments	(187,595)	(5,129)
Change in present value discount	12,265	-
Interest and dividend income	30,504	4,348
	<u>\$ (177,112)</u>	<u>\$ (471)</u>

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NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>Method</u>	<u>Estimated Useful Lives (Years)</u>	<u>2022</u>	<u>2021</u>
Building and improvements	Straight-line	40	\$ 2,109,365	\$ 2,109,365
Computer equipment	Straight-line	3	24,885	17,260
Furniture and fixtures	Straight-line	5	28,033	20,533
			<u>2,162,283</u>	<u>2,147,158</u>
Less: accumulated depreciation			<u>(150,619)</u>	<u>(76,909)</u>
			2,011,664	2,070,249
Land			623,016	623,016
			<u>\$ 2,634,680</u>	<u>\$ 2,693,265</u>

Depreciation expense for the years ended December 31, 2022 and 2021 was \$73,710 and \$50,402, respectively.

NOTE 5 – CHARITABLE REMAINDER TRUST

During 2022, the Organization recorded a receipt of a donation of a beneficial interest in an irrevocable Charitable Remainder Trusts, from a now deceased donor with the Superior Court of Los Angeles. The terms of the Trust require payments to be made to the Trust's beneficiaries of certain percentages of the net fair market value of the Trust's assets. The remainder of the Trust's assets are to be distributed to the Organization after the beneficiaries have received their required payments. The Organization recognizes as revenue the present value of the estimated future benefits to be received upon distribution of the irrevocable trust for which the Organization is beneficiary. Changes in the present value discount amount and overall value of Organization's beneficial interest in the trust are recognized in the statement of activities. The total fair value of the Trust as of December 31, 2022 was \$906,222. The Trust's net assets are reported as donor restricted net assets in the financial statements.

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NOTE 6 – ACCRUED EXPENSES

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

	<u>2022</u>	<u>2021</u>
Payroll	\$ 296,254	\$ 428,112
Paid time off	578,588	348,354
Deferred compensation	151,971	44,998
Client funds payable	-	1,667
Total	<u>\$ 1,026,813</u>	<u>\$ 823,131</u>

NOTE 7 – 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 (7.50% at December 31, 2022) plus 275 basis points per annum. The interest rate has a floor of 3.50% and a ceiling of 16.00%. At December 31, 2022 and 2021 the interest rate was 10.25% and 6.00% per annum, respectively. The outstanding balance on the line of credit at December 31, 2022 and 2021 was none.

NOTE 8 – DEFERRED COMPENSATION PLANS

During 2021, the Organization engaged an executive compensation research firm, Willis Towers, and an independent accounting firm, Krycler, Ervin, Taubman & Kaminsky, to perform an executive compensation analysis and a historical pay study on behalf of its Executive Director. As a result of these two studies, the Organization established a 457(b)-deferred compensation plan and a 457(f)-deferred compensation plan (“the Plans”) to hold the deferred compensation funds paid to Dr. Lee as indicated in the studies. During the years ended December 31, 2022 and 2021 the Organization paid \$120,500 and \$45,000 into the Plans, respectively.

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, 2022 and 2021 was \$151,971 and \$44,998, respectively.

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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 – AVAILABILITY OF FINANCIAL ASSETS

The following reflects The Organization’s financial assets as of December 31, 2022, 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, 2022 have not been subtracted as unavailable. There were no such board designated funds as of December 31, 2022 and 2021.

The Organization’s financial assets available within one year of December 31, 2022 and 2021 for general expenditure are as follows:

<i>Financial assets, at year end</i>	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 568,632	\$ 354,046
Investments	1,007,938	1,702,499
<i>Less those unavailable for general expenditures within one year due to:</i>		
<i>Contractual or donor-imposed restrictions:</i>		
Restricted by donor with purpose restrictions	-	-
Total	<u>\$ 1,576,570</u>	<u>\$ 2,056,545</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.

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NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

<i>Time restrictions:</i>	<u>2022</u>	<u>2021</u>
Charitable remainder trusts	\$ <u>906,222</u>	\$ <u>-</u>

NOTE 12 – LITIGATION

The Organization may be subject to certain outside claims and litigation arising in the ordinary course of business. In the opinion of the Organization's management and its counsel, there are no matters which could have a material effect on the accompanying financial statements.

NOTE 13 – SUBSEQUENT EVENTS

Events subsequent to December 31, 2022 have been evaluated through May 10, 2023, the date at which the Organization's audited financial statements were to be issued. No events requiring disclosures have occurred through this date.