

CHILDREN OF THE NIGHT, INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

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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 statements of Children of the Night, Inc., which comprise the statement of financial position as of December 31, 2014 and the related statement 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, 2014, 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. 2013 financial statements, and our report dated August 5, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

The Ozurovich Group, Inc.

The Ozurovich Group, Inc.

Los Angeles, California
July 13, 2015

CHILDREN OF THE NIGHT, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014
(WITH COMPARISON TOTALS FOR 2013)

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 79,676	\$ 125,720
Grants receivable	65,731	45,978
Prepaid expenses	<u>17,050</u>	<u>4,678</u>
Total current assets	162,457	176,376
Property and equipment - net	<u>1,376,404</u>	<u>1,308,417</u>
TOTAL ASSETS	<u><u>\$ 1,538,861</u></u>	<u><u>\$ 1,484,793</u></u>
 LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	\$ 196,908	\$ 59,251
Client funds payable	3,642	3,642
Accrued payroll	7,291	31,945
Accrued vacation	223,893	194,079
Line of credit	19,993	-
Note payable - current	<u>5,701</u>	<u>-</u>
Total current liabilities	457,428	288,917
Long-term liabilities		
Note payable	<u>20,333</u>	<u>-</u>
Total liabilities	<u>477,761</u>	<u>288,917</u>
 NET ASSETS		
Unrestricted net assets	995,369	1,146,094
Temporarily restricted	<u>65,731</u>	<u>49,782</u>
TOTAL NET ASSETS	<u>1,061,100</u>	<u>1,195,876</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,538,861</u></u>	<u><u>\$ 1,484,793</u></u>

See independent auditors' report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014</u>	<u>2013</u>
SUPPORT				
Foundations	\$ 896,999	\$ 26,640	\$ 923,639	\$ 779,156
Individuals	791,234	31,029	822,263	599,250
Corporations	307,547	8,062	315,609	373,105
Bequests	31,653	-	31,653	371,223
Government	-	-	-	-
Total Support	<u>2,027,433</u>	<u>65,731</u>	<u>2,093,164</u>	<u>2,122,734</u>
REVENUE				
Other income	14,041	-	14,041	77,281
Investment income	25	-	25	-
Partnership income	13,197	-	13,197	12,919
Total Revenue	<u>27,263</u>	<u>-</u>	<u>27,263</u>	<u>90,200</u>
Donated Goods and Services	<u>51,395</u>	<u>-</u>	<u>51,395</u>	<u>13,772</u>
Total Support, Revenue and Donated Goods and Services	<u>2,106,091</u>	<u>65,731</u>	<u>2,171,822</u>	<u>2,226,706</u>
Net Assets Released from Restrictions				
Restrictions satisfied by payments	49,782	(49,782)	-	-
Total Support, Revenue and Reclassifications	<u>2,155,873</u>	<u>15,949</u>	<u>2,171,822</u>	<u>2,226,706</u>
EXPENSES				
Program Services				
Children's services	2,007,170	-	2,007,170	2,128,415
Supporting Services				
Management and general	145,824	-	145,824	164,645
Fund raising	153,604	-	153,604	149,936
Total Supporting Services	<u>299,428</u>	<u>-</u>	<u>299,428</u>	<u>314,581</u>
TOTAL EXPENSES	<u>2,306,598</u>	<u>-</u>	<u>2,306,598</u>	<u>2,442,996</u>
CHANGE IN NET ASSETS	(150,725)	15,949	(134,776)	(216,290)
NET ASSETS, Beginning of year	<u>1,146,094</u>	<u>49,782</u>	<u>1,195,876</u>	<u>1,412,166</u>
NET ASSETS, End of year	<u>\$ 995,369</u>	<u>\$ 65,731</u>	<u>\$ 1,061,100</u>	<u>\$ 1,195,876</u>

See independent auditors' report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

	2014				2013	
	Program Services	Supporting Services			Total Expenses	Total Expenses
	Children's Services	Management and General	Fund Raising	Total		
Salaries, payroll taxes and employee benefits	\$ 1,234,226	\$ 110,770	\$ 39,993	\$ 150,763	\$ 1,384,989	\$ 1,424,469
Advertising	2,008	669	19,637	20,306	22,314	25,611
Auto	6,705	745	-	745	7,450	6,982
Bank charges	7,052	883	882	1,765	8,817	9,512
Client support services	219,573	-	-	-	219,573	301,600
Depreciation	77,872	-	-	-	77,872	70,190
Dues and subscriptions	4,886	199	4,886	5,085	9,971	7,163
Insurance	26,266	2,335	584	2,919	29,185	28,965
Interest	4,812	601	601	1,202	6,014	-
International shelter	581	-	-	-	581	26,517
Legal and audit	5,972	2,559	-	2,559	8,531	8,475
Licensing fees	10,856	1,206	-	1,206	12,062	8,939
Miscellaneous	3,749	-	-	-	3,749	3,225
Outreach	1,968	-	-	-	1,968	488
Outside services	5,655	7,069	57,961	65,030	70,685	64,479
Postage and direct mail	3,178	1,059	16,948	18,007	21,185	23,230
Printing	5,502	47	1,104	1,151	6,653	24,692
Repairs and maintenance	92,271	10,252	-	10,252	102,523	125,251
School supplies	8,841	-	-	-	8,841	8,459
Small equipment	17,073	2,134	2,134	4,268	21,341	19,106
Staff development	17,142	1,008	2,017	3,025	20,167	24,649
Supplies	23,090	2,717	1,358	4,075	27,165	41,413
Telephone	21,032	1,107	-	1,107	22,139	21,141
Travel	104,477	-	5,499	5,499	109,976	117,364
Utilities	51,452	-	-	-	51,452	37,304
Total Expenses Before Donated Goods and Services	1,956,239	145,360	153,604	298,964	2,255,203	2,429,224
Donated goods and services	50,931	464	-	464	51,395	13,772
Total Expenses	\$ 2,007,170	\$ 145,824	\$ 153,604	\$ 299,428	\$ 2,306,598	\$ 2,442,996

See independent auditors' report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014
(WITH COMPARISON TOTALS FOR 2013)

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (134,776)	\$ (216,290)
Adjustments to reconcile increase in net assets to net cash provided/(used) by operating activities		
Depreciation	77,872	70,190
(Increase) decrease in assets		
Grants receivable	(19,753)	10,203
Prepaid expenses	(12,373)	4,379
Increase (decrease) in liabilities		
Accounts payable	128,862	(23,924)
Accrued expenses	(15,859)	9,574
Accrued vacation	29,814	80,764
Net cash provided/(used) by operating activities	<u>53,787</u>	<u>(65,104)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(145,858)</u>	<u>(126,464)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on line of credit	19,993	-
Principle payments on loan	(3,281)	-
Purchase of auto	29,315	-
Net cash provided by financing activities	<u>46,027</u>	<u>-</u>
NET (DECREASE) IN CASH	(46,044)	(191,568)
CASH AND CASH EQUIVALENTS, beginning of year	<u>125,720</u>	<u>317,288</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 79,676</u>	<u>\$ 125,720</u>
Supplemental Cash Flow Disclosures:		
Interest paid	<u>\$ 6,014</u>	<u>\$ 723</u>

See independent auditors' 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 December 2, 1981.

The specific purpose of this corporation is to provide intervention in the lives of children who are sexually exploited and vulnerable to or involved in prostitution and pornography.

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. We provide free taxi/airline transportation nationwide for American's child prostitutes who wish to escape prostitution and live in our home.

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.

In 2011, Dr. Lois Lee, Founder & President of Children of the Night, expanded Children of the Night's educational, mental health and professional volunteers to young people on the streets across the nation. These services are called "*Children of the Night With Out Wall*" (*WOW*). Prior to *WOW* these services were limited to those who lived within the Children of the Night home.

WOW offers access to an education by providing free online GED assessments, GED tutoring, funding for the GED Test, support documents for registration to test for the GED and transportation to the GED testing sites throughout the United States.

Children of the Night *WOW* offers nationwide sophisticated case management for the mentally ill who are forced out on the streets without family or resources. *WOW* case managers provide access to Supplemental Security Income from the Social Security Administration and government medical benefits so the totally disabled living on the street may have access to residential placements, psychiatric care, psychotropic medications, requisite transportation and *hand-holding* to access these services.

WOW connects volunteer lawyers, physicians, psychiatrists and other professionals nationwide to provide specialized services sometimes required to permanently remove people from *life on the street*.

Support services for Children of the Night *WOW* program are provided by our 24/7 hotline.

See independent auditors' report.

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

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 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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets

Unrestricted General Net Assets - Include contributions, fundraising, fees and other forms of unrestricted revenue and expenditures related to the general operations and fundraising efforts of the Organization.

Temporarily Restricted Net Assets - Include gifts and grants received that are temporarily 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 unrestricted net assets. Restricted gifts and grants received are reported as unrestricted revenue if the restriction is met in the same reporting period.

Permanently Restricted Net Assets - Include assets that have been restricted by the donor in perpetuity and cannot be expended by the Organization. The Organization has no permanently restricted net assets.

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.

Concentrations of Credit Risk

Occasionally the Organization's bank balances exceed the Federal Deposit Insurance Corporation insured limits. The Organization has not experienced and does not anticipate any losses relating to cash held in these accounts.

See independent auditors' report.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants Receivable

Grant agreements that have yet to be funded, or that will be funded over a specific time period, are included in grants receivable.

Property and Equipment

Property and equipment are recorded at cost if purchased and at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The estimated useful live of vehicles, building improvements and furniture and fixtures is five to seven years. The estimated useful live of the building is forty years. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than \$1,000 and the useful life is greater than one year.

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, 2014 and 2013, advertising costs totaled \$22,315 and \$25,611, respectively.

Tax Status

The Organization is a nonprofit public benefit corporation 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.

The Organization's federal income tax and information returns for tax years ending December 31, 2011 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, 2010 and subsequent.

Used of 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.

See independent auditors' report.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2013, from which the summarized information was derived.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	Method	Estimated Useful Lives (Years)	2014	2013
Building	Straight-line	40	\$ 1,805,744	\$ 1,805,744
Computer software	Straight line	3	9,554	-
Vehicles	Straight-line	5 - 7	53,449	48,444
Furniture and fixtures	Straight-line	5 - 7	285,423	281,810
Wow call center	Straight- line	40	190,230	95,195
Building improvements	Straight-line	7	93,038	84,695
			<u>2,437,438</u>	<u>2,315,888</u>
Less accumulated depreciation			<u>(1,374,390)</u>	<u>(1,320,827)</u>
			1,063,048	995,061
Land			263,356	263,356
Mural			50,000	50,000
			<u>\$ 1,376,404</u>	<u>\$ 1,308,417</u>

Depreciation expense for the years ended December 31, 2014 and 2013 was \$77,872 and \$70,190, respectively.

NOTE 4 - 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:

	2014	2013
General Support	<u>\$ 65,731</u>	<u>\$ 49,782</u>

See independent auditors' report.

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

NOTE 5 – 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>2014</u>	<u>2013</u>
General Support	<u>\$ 45,978</u>	<u>\$ 152,377</u>

NOTE 6 – 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>2014</u>	<u>2013</u>
Goods	<u>\$ 50,931</u>	<u>\$ 13,772</u>
Services	<u>464</u>	<u>-</u>
Total	<u>\$ 51,395</u>	<u>\$ 19,044</u>

Also a substantial number of unpaid volunteers have contributed their time in conjunction with the Organization's programs and services.

NOTE 7 – LINE OF CREDIT

The company has a \$20,000 revolving line of credit with City National Bank, which had an available balance of \$7 at December 31, 2014. Bank advances on the credit line are payable on demand and carry an interest rate of 6%.

NOTE 8 – NOTE PAYABLE

Note payable consists of a loan from Nissan Motors for the purchase of a 2014 Nissan Quest. The Note carries an interest rate of 1.90% per annum, with 60 monthly payments of \$512.95 and is due on June 17, 2019.

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

NOTE 8 - NOTE PAYABLE - (Continued)

Current	\$ 5,701
Long Term	<u>20,333</u>
Total	<u>\$ 26,034</u>

Long-term portion is due as follows for the years ended December 31:

2016	\$ 5,811
2017	5,922
2018	6,035
2019	<u>2,565</u>
Total long-term	<u>\$ 20,333</u>

NOTE 9 - SUBSEQUENT EVENT

Events subsequent to December 31, 2014 have been evaluated through July 13, 2015, the date at which the Organization's audited financial statements were to be issued. No events requiring disclosure have occurred through this date.

Of course, if events requiring disclosure have occurred between the balance sheet date and the date the financial statements were available to be issued they would be disclosed here.