

CHILDREN OF THE NIGHT, INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2015
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2014)

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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, 2015 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, 2015, 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. 2014 financial statements, and our report dated July 13, 2015, 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, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

The Ozurovich Group, Inc.

Los Angeles, California
July 6, 2016

CHILDREN OF THE NIGHT, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2014)

	2015			2014
	Unrestricted	Temporarily Restricted	TOTAL	TOTAL
ASSETS				
Current assets				
Cash and cash equivalents	\$ 278,167	\$ -	\$ 278,167	\$ 79,676
Grants receivable	-	58,251	58,251	65,731
Prepaid expenses	18,365	-	18,365	17,050
Total current assets	296,532	58,251	354,783	162,457
Property and equipment - net	1,311,353	-	1,311,353	1,376,404
TOTAL ASSETS	\$ 1,607,885	\$ 58,251	\$ 1,666,136	\$ 1,538,861
LIABILITIES				
Current liabilities				
Accounts payable	\$ 129,986	\$ -	\$ 129,986	\$ 188,114
Accrued expenses	284,869	-	284,869	243,620
Line of credit	20,095	-	20,095	19,993
Lease obligation - current	5,811	-	5,811	5,701
Total current liabilities	440,761	-	440,761	457,428
Long-term liabilities				
Lease obligation	14,993	-	14,993	20,333
Total liabilities	455,754	-	455,754	477,761
NET ASSETS				
Unrestricted net assets	1,152,131	-	1,152,131	995,369
Temporarily restricted	-	58,251	58,251	65,731
TOTAL NET ASSETS	1,152,131	58,251	1,210,382	1,061,100
TOTAL LIABILITIES AND NET ASSETS	\$ 1,607,885	\$ 58,251	\$ 1,666,136	\$ 1,538,861

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015</u>	<u>2014</u>
SUPPORT				
Foundations	\$ 1,089,821	\$ 14,750	\$ 1,104,571	\$ 923,639
Individuals	996,949	36,940	1,033,889	822,263
Corporations	151,350	6,561	157,911	315,609
Bequests	-	-	-	31,653
Total Support	<u>2,238,120</u>	<u>58,251</u>	<u>2,296,371</u>	<u>2,093,164</u>
REVENUE				
Other income	832	-	832	14,041
Investment income	-	-	-	25
Partnership income	14,590	-	14,590	13,197
Total Revenue	<u>15,422</u>	<u>-</u>	<u>15,422</u>	<u>27,263</u>
DONATED GOODS AND SERVICES	<u>65,320</u>	<u>-</u>	<u>65,320</u>	<u>51,395</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>65,731</u>	<u>(65,731)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, and Reclassifications	<u>2,384,593</u>	<u>(7,480)</u>	<u>2,377,113</u>	<u>2,171,822</u>
EXPENSES				
Program Services				
Children's services	<u>1,994,686</u>	<u>-</u>	<u>1,994,686</u>	<u>2,007,170</u>
Supporting Services				
Management and general	98,894	-	98,894	145,824
Fund raising	<u>134,251</u>	<u>-</u>	<u>134,251</u>	<u>153,604</u>
Total Supporting Services	233,145	-	233,145	299,428
Total Expenses	<u>2,227,831</u>	<u>-</u>	<u>2,227,831</u>	<u>2,306,598</u>
CHANGE IN NET ASSETS	156,762	(7,480)	149,282	(134,776)
NET ASSETS, Beginning of year	<u>995,369</u>	<u>65,731</u>	<u>1,061,100</u>	<u>1,195,876</u>
NET ASSETS, End of year	<u>\$ 1,152,131</u>	<u>\$ 58,251</u>	<u>\$ 1,210,382</u>	<u>\$ 1,061,100</u>

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2014)

	<u>2015</u>				<u>2014</u>	
	<u>Program Services</u>	<u>Supporting Services</u>			<u>Total Expenses</u>	<u>Total Expenses</u>
	Children's Services	Management and General	Fund Raising	Subtotal		
Salaries, payroll taxes and employee benefits	\$ 1,220,372	\$ 64,332	\$ 35,778	\$ 100,110	\$ 1,320,482	\$ 1,327,455
Advertising	2,064	688	20,181	20,869	22,933	22,314
Auto	7,125	792	-	792	7,917	7,450
Bank charges	10,522	1,315	1,315	2,630	13,152	8,817
Client support services	225,094	-	-	-	225,094	221,780
Depreciation	82,512	-	-	-	82,512	77,872
Dues and subscriptions	7,700	314	7,700	8,014	15,714	9,971
Insurance	55,967	4,975	1,244	6,219	62,186	86,719
Interest	14,089	1,761	1,761	3,522	17,611	6,014
International shelter	7,090	-	-	-	7,090	581
Legal and audit	7,025	3,011	-	3,011	10,036	8,531
Licensing fees	10,203	1,134	-	1,134	11,337	12,062
Outreach	338	-	-	-	338	1,968
Outside services	3,574	4,468	36,634	41,102	44,676	70,685
Postage and direct mail	2,831	944	15,096	16,040	18,871	21,185
Printing	25,968	220	5,212	5,432	31,400	6,653
Repairs and maintenance	73,255	8,139	-	8,139	81,394	102,523
School supplies	6,592	-	-	-	6,592	10,383
Small equipment	26,346	3,293	3,293	6,586	32,932	21,341
Staff development	20,136	1,184	2,369	3,553	23,689	20,167
Supplies	15,061	1,772	886	2,658	17,719	27,165
Telephone	10,490	552	-	552	11,042	22,139
Travel	52,855	-	2,782	2,782	55,637	109,976
Utilities	42,157	-	-	-	42,157	51,452
Total Expenses Before Donated Goods and Services	1,929,366	98,894	134,251	233,145	2,162,511	2,255,203
Donated goods and services	65,320	-	-	-	65,320	51,395
Total Expenses	\$ 1,994,686	\$ 98,894	\$ 134,251	\$ 233,145	\$ 2,227,831	\$ 2,306,598

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 149,282	\$ (134,776)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	82,512	77,872
(Increase) decrease in assets		
Grants receivable	7,480	(19,753)
Prepaid expenses	(1,315)	(12,373)
Increase (decrease) in liabilities		
Accounts payable	(58,128)	128,862
Accrued expenses	41,249	13,955
Net cash provided by operating activities	221,080	53,787
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(17,461)	(145,858)
Net cash (used) by investing activities	(17,461)	(145,858)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on line of credit	-	19,993
Payments on line of credit	(1,098)	-
Principle payments on lease obligation	(5,230)	(3,281)
Proceeds from lease obligation	-	29,315
Net cash (used)/provided by financing activities	(6,328)	46,027
NET INCREASE/(DECREASE) IN CASH	197,291	(46,044)
CASH AND CASH EQUIVALENTS, beginning of year	79,676	125,720
CASH AND CASH EQUIVALENTS, end of year	\$ 276,967	\$ 79,676
Supplemental Cash Flow Disclosures:		
Interest paid	\$ 17,611	\$ 6,014

See independent auditor's report and accompanying notes.

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

NOTE 1 – ORGANIZATION

Children of the Night, Inc. (the Organization) is a California non-profit corporation incorporated in 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 America'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 programs to young people on the streets across the nation. These services are called "***Children of the Night With Out Walls***", (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.

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

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 – Included assets that have been restricted by the donor in perpetuity while permitting the Organization to use or expend part or all of the income derived from the assets.

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.

(Note 2 continued on the following page)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and Unrestricted Revenue and Support

Contributions that are restricted by the donor are reported as increases in unrestricted net assets 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 temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

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, 2012 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, 2011 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.

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, 2015 and 2014 the Organization received donated goods and services in the amounts of \$65,320 and \$51,395, respectively. The contributions were recorded at their fair market value at the date of donation. Equal amounts were also recorded as advertising and promotion 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**

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, 2015 and 2014 the uninsured amounts were \$26,851 and none, 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.

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 Revenue

The Organization receives funding through grants from private foundations, individuals, and corporations. Grant revenue includes exchange transactions 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.

Grants Receivable

Grants and accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the past and current relationships with donors, it has concluded that losses on balances outstanding at year-end will be immaterial. Therefore, the allowance for doubtful accounts at December 31, 2015 and 2014 was none.

(Note 2 continued on the following page)

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2015 and 2014, advertising costs totaled \$22,933 and \$22,314, respectively.

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.

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, 2014, from which the summarized information was derived.

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.

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>Method</u>	<u>Estimated Useful Lives (Years)</u>	<u>2015</u>	<u>2014</u>
Building	Straight-line	40	\$ 1,805,744	\$ 1,805,744
Computer software	Straight line	3	10,090	9,554
Vehicles	Straight-line	5 – 7	53,449	53,449
Furniture and fixtures	Straight-line	5 – 7	291,128	285,423
Wow call center	Straight- line	40	190,230	190,230
Building improvements	Straight-line	7	104,258	93,038
			<u>2,454,899</u>	<u>2,437,438</u>
Less accumulated depreciation			<u>(1,456,902)</u>	<u>(1,374,390)</u>
			997,997	1,063,048
Land			263,356	263,356
Mural			50,000	50,000
			<u>\$ 1,311,353</u>	<u>\$ 1,376,404</u>

Depreciation expense for the years ended December 31, 2015 and 2014 was \$82,512 and \$77,872, respectively.

NOTE 4 – ACCRUED EXPENSES

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

	<u>2015</u>	<u>2014</u>
Payroll	\$ 32,254	\$ 7,291
Paid time off	249,907	223,893
Client funds payable	2,708	3,642
Other	-	8,794
Total	<u>\$ 284,869</u>	<u>\$ 243,620</u>

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily net assets of the Organization are restricted as follows, as of December 31:

	<u>2015</u>	<u>2014</u>
Temporarily restricted net assets:		
General support	<u>\$ 58,251</u>	<u>\$ 65,731</u>

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – NET ASSETS RELEASED FROM RESTRICTIONS

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

	<u>2015</u>	<u>2014</u>
Net assets released from time restrictions:		
General support	\$ <u>65,731</u>	\$ <u>49,782</u>

NOTE 7 – LINE OF CREDIT

The Organization has a \$20,000 revolving line of credit with City National Bank, which had an available balance of \$1,105 and \$7 at December 31, 2015 and 2014, respectively. 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, 2015) plus 275 basis points per annum. The interest rate has a floor of 3.50% and a ceiling of 16.00%. At December 31, 2015 and 2014 the interest rate was 6% per annum.

NOTE 8 – LEASE OBLIGATIONS

The Organization leases a 2014 Nissan Quest under a capital lease. The obligations under the capital lease have been recorded at the present value of future minimum lease payments, discounted at an interest rate of 1.90%. The capitalized cost of the asset is \$29,315 less accumulated depreciation of \$9,283, is included in property and equipment. The net book value of these assets is \$20,032. Depreciation expense for these assets for the year ended December 31, 2015 was \$5,863.

The obligation under the capital leases consist of the following:

	<u>2015</u>	<u>2014</u>
Total	\$ 20,804	\$ 26,034
Less current portion	<u>(5,811)</u>	<u>(5,701)</u>
Long-term portion	<u>\$ 14,993</u>	<u>\$ 20,333</u>

(Note 8 continued on the following page)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 8 – LEASE OBLIGATIONS (Continued)

The future minimum lease payments under these capital leases and the net present value of the future minimum lease payments are as follows at December 31:

2016	\$	6,155
2017		6,155
2018		6,155
2019		3,054
		<u>21,519</u>
Less: amounts attributable to interest		<u>(715)</u>
Total lease payable	\$	<u>20,804</u>

The Organization is also committed under a noncancelable operating lease for a vehicle used in day-to-day operations. The lease is currently scheduled to expire on August 28, 2018. The monthly lease payment is \$610. Future minimum lease payments under the noncancelable operating lease as of December 31, 2015 are as follows:

Years ending December 31:		
2016	\$	7,315
2017		7,315
2018		<u>4,267</u>
	\$	<u>18,897</u>

Rent expense for the years ended December 31, 2015 and 2014 was \$7,917 and \$7,450 respectively.

NOTE 9 – SUBSEQUENT EVENTS

Events subsequent to December 31, 2015 have been evaluated through July 6, 2016, 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.