

CHILDREN OF THE NIGHT, INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)

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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, 2016 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, 2016, 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 2015 financial statements, and our report dated July 6, 2016, 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
September 27, 2017

CHILDREN OF THE NIGHT, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	TOTAL	TOTAL
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 570,486	\$ -	\$ 570,486	\$ 278,167
Grants receivable	-	83,387	83,387	58,251
Prepaid expenses	26,020	-	26,020	18,365
<i>Total current assets</i>	<u>596,506</u>	<u>83,387</u>	<u>679,893</u>	<u>354,783</u>
Property and equipment - net	<u>1,256,024</u>	<u>-</u>	<u>1,256,024</u>	<u>1,311,353</u>
TOTAL ASSETS	<u><u>\$ 1,852,530</u></u>	<u><u>\$ 83,387</u></u>	<u><u>\$ 1,935,917</u></u>	<u><u>\$ 1,666,136</u></u>
LIABILITIES				
<i>Current liabilities</i>				
Accounts payable	\$ 38,110	\$ -	\$ 38,110	\$ 129,986
Accrued expenses	323,816	-	323,816	284,869
Line of credit	19,993	-	19,993	20,095
Lease obligations - current	11,550	-	11,550	5,811
<i>Total current liabilities</i>	<u>393,469</u>	<u>-</u>	<u>393,469</u>	<u>440,761</u>
<i>Long-term liabilities</i>				
Lease obligations	<u>26,266</u>	<u>-</u>	<u>26,266</u>	<u>14,993</u>
<i>Total liabilities</i>	<u>419,735</u>	<u>-</u>	<u>419,735</u>	<u>455,754</u>
NET ASSETS				
Unrestricted net assets	1,432,795	-	1,432,795	1,152,131
Temporarily restricted	<u>-</u>	<u>83,387</u>	<u>83,387</u>	<u>58,251</u>
TOTAL NET ASSETS	<u>1,432,795</u>	<u>83,387</u>	<u>1,516,182</u>	<u>1,210,382</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,852,530</u></u>	<u><u>\$ 83,387</u></u>	<u><u>\$ 1,935,917</u></u>	<u><u>\$ 1,666,136</u></u>

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016</u>	<u>2015</u>
SUPPORT				
Foundations	\$ 508,937	\$ 10,500	\$ 519,437	\$ 1,104,571
Individuals	1,172,195	41,454	1,213,649	1,033,889
Corporations	385,277	31,433	416,710	157,911
Bequests	483,245	-	483,245	-
Total Support	<u>2,549,654</u>	<u>83,387</u>	<u>2,633,041</u>	<u>2,296,371</u>
REVENUE				
Other income	1,895	-	1,895	832
Investment income	11	-	11	-
Partnership income	15,012	-	15,012	14,590
Total Revenue	<u>16,918</u>	<u>-</u>	<u>16,918</u>	<u>15,422</u>
DONATED GOODS AND SERVICES	<u>1,501,274</u>	<u>-</u>	<u>1,501,274</u>	<u>65,320</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>58,251</u>	<u>(58,251)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, and Reclassifications	<u>4,126,097</u>	<u>25,136</u>	<u>4,151,233</u>	<u>2,377,113</u>
EXPENSES				
Program Services				
Children's services	3,594,506	-	3,594,506	1,994,686
Supporting Services				
Management and general	155,497	-	155,497	98,894
Fund raising	95,430	-	95,430	134,251
Total Supporting Services	250,927	-	250,927	233,145
Total Expenses	<u>3,845,433</u>	<u>-</u>	<u>3,845,433</u>	<u>2,227,831</u>
CHANGE IN NET ASSETS	280,664	25,136	305,800	149,282
NET ASSETS, Beginning of year	<u>1,152,131</u>	<u>58,251</u>	<u>1,210,382</u>	<u>1,061,100</u>
NET ASSETS, End of year	<u>\$ 1,432,795</u>	<u>\$ 83,387</u>	<u>\$ 1,516,182</u>	<u>\$ 1,210,382</u>

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)

	2016				2015	
	Program Services	Supporting Services			Total Expenses	Total Expenses
	Children's Services	Management and General	Fund Raising	Subtotal		
Salaries, payroll taxes and employee benefits	\$ 1,279,161	\$ 98,586	\$ 51,539	\$ 150,125	\$ 1,429,286	\$ 1,320,482
Advertising	1,237	412	12,091	12,503	13,740	22,933
Auto	6,410	712	-	712	7,122	7,917
Bank charges	8,728	1,091	1,091	2,182	10,910	13,152
Client support services	223,163	-	-	-	223,163	225,094
Depreciation	83,729	-	-	-	83,729	82,512
Dues and subscriptions	4,039	165	4,039	4,204	8,243	15,714
Insurance	74,084	6,585	1,646	8,231	82,315	62,186
Interest	2,174	272	272	544	2,718	17,611
International shelter	13,245	-	-	-	13,245	7,090
Legal and audit	7,000	3,000	-	3,000	10,000	10,036
Licensing fees	11,084	1,232	-	1,232	12,316	11,337
Miscellaneous	674	-	-	-	674	-
Outreach	-	-	-	-	-	338
Outside services	40,807	15,292	226	15,518	56,325	44,676
Postage and direct mail	1,969	656	10,502	11,158	13,127	18,871
Printing	11,986	101	2,406	2,507	14,493	31,400
Repairs and maintenance	99,159	14,568	-	14,568	113,727	81,394
School supplies	11,738	-	-	-	11,738	6,592
Small equipment	16,174	2,022	2,022	4,044	20,218	32,932
Staff development	40,722	2,395	4,791	7,186	47,908	23,689
Supplies	24,207	2,848	1,424	4,272	28,479	17,719
Taxes and fees	-	4,404	-	4,404	4,404	-
Telephone	21,957	1,156	-	1,156	23,113	11,042
Travel	64,242	-	3,381	3,381	67,623	55,637
Utilities	45,543	-	-	-	45,543	42,157
Total Expenses Before Donated Goods and Services	2,093,232	155,497	95,430	250,927	2,344,159	2,162,511
Donated goods and services	1,501,274	-	-	-	1,501,274	65,320
Total Expenses	\$ 3,594,506	\$ 155,497	\$ 95,430	\$ 250,927	\$ 3,845,433	\$ 2,227,831

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 305,800	\$ 149,282
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	83,729	82,512
(Increase) decrease in assets		
Grants receivable	(25,136)	7,480
Prepaid expenses	(7,655)	(1,315)
Increase (decrease) in liabilities		
Accounts payable	(91,876)	(58,128)
Accrued expenses	38,947	41,249
Net cash provided by operating activities	303,809	221,080
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(28,400)	(17,461)
Net cash (used) by investing activities	(28,400)	(17,461)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from line of credit	-	1,200
Payments on line of credit	(102)	(1,098)
Principle payments on lease obligation	(11,388)	(5,230)
Proceeds from lease obligation	28,400	-
Net cash provided/(used) by financing activities	16,910	(5,128)
NET INCREASE IN CASH	292,319	198,491
CASH AND CASH EQUIVALENTS, beginning of year	278,167	79,676
CASH AND CASH EQUIVALENTS, end of year	\$ 570,486	\$ 278,167
Supplemental Cash Flow Disclosures:		
Interest paid	\$ 2,718	\$ 17,611

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, Inc. 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, Inc., 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 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. The Organization has no permanently restricted net assets at December 31, 2016.

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, 2012 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, 2016 and 2015 the Organization received donated goods and services in the amounts of \$1,501,274 and \$65,320, 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, 2016 and 2015 the uninsured amounts were \$440,522 and \$52,991, 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, 2016 and 2015 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, 2016 and 2015, advertising costs totaled \$13,740 and \$22,933, 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, 2015, from which the summarized information was derived.

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	Method	Estimated Useful Lives (Years)	2016	2015
Building	Straight-line	40	\$ 1,805,744	\$ 1,805,744
Computer software	Straight line	3	10,090	10,090
Vehicles	Straight-line	5 – 7	81,849	53,449
Furniture and fixtures	Straight-line	5 – 7	291,128	291,128
Wow call center	Straight- line	40	190,230	190,230
Building improvements	Straight-line	7	104,258	104,258
			<u>2,483,299</u>	<u>2,454,899</u>
Less accumulated depreciation			<u>(1,540,631)</u>	<u>(1,456,902)</u>
			942,668	997,997
Land			263,356	263,356
Mural			50,000	50,000
			<u>\$ 1,256,024</u>	<u>\$ 1,311,353</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$83,729 and \$82,512, respectively.

NOTE 4 – ACCRUED EXPENSES

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

	2016	2015
Payroll	\$ 51,524	\$ 32,254
Paid time off	270,625	249,907
Client funds payable	1,667	2,708
Total	<u>\$ 323,816</u>	<u>\$ 284,869</u>

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Temporarily restricted net assets:		
General support	<u>\$ 83,387</u>	<u>\$ 58,251</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>2016</u>	<u>2015</u>
Net assets released from time restrictions:		
General support	\$ <u>58,251</u>	\$ <u>65,731</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, 2016 and 2015, respectively. Bank advances on the credit line are payable on demand and carry a variable interest rate of calculated as the Prime Rate (3.75% at December 31, 2016) plus 275 basis points per annum. The interest rate has a floor of 3.50% and a ceiling of 16.00%. At December 31, 2016 and 2015 the interest rate was 6.50% and 6.00% per annum, respectively.

NOTE 8 – LEASE OBLIGATIONS

The Organization leases a 2014 and 2015 Nissan Quest under capital leases. The obligations under the capital leases have been recorded at the present value of future minimum lease payments, discounted at an interest rates ranging between 0.91% and 1.90%. The capitalized cost of the assets is \$57,716 less accumulated depreciation of \$20,826, is included in property and equipment. The net book value of these assets is \$36,890. Depreciation expense for these assets for the year ended December 31, 2016 was \$11,543.

The obligation under the capital leases consist of the following:

	<u>2016</u>	<u>2015</u>
Total	\$ 37,816	\$ 20,804
Less current portion	<u>(11,550)</u>	<u>(5,811)</u>
Long-term portion	<u>\$ 26,266</u>	<u>\$ 14,993</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:

2017	\$	11,968
2018		11,968
2019		8,865
2020		<u>5,813</u>
		38,614
Less: amounts attributable to interest		<u>(798)</u>
Total lease payable	\$	<u>37,816</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, 2016 are as follows:

Years ending December 31:		
2017	\$	7,315
2018		<u>4,267</u>
	\$	<u>11,582</u>

Rent expense for the years ended December 31, 2016 and 2015 was \$7,122 and \$7,917 respectively.

NOTE 9 - SUBSEQUENT EVENTS

Events subsequent to December 31, 2016 have been evaluated through September 27, 2017, the date at which the Organization's audited financial statements were to be issued. No events requiring disclosure have occurred through this date.