

CHILDREN OF THE NIGHT, INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of financial position	3
Statement of activities and changes in net assets	4
Statement of functional expenses	5
Statements of cash flows	6
NOTES TO FINANCIAL STATEMENTS	7 - 14

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, 2017 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, 2017, 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 2016 financial statements, and our report dated September 27, 2017, 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, 2016 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 24, 2018

CHILDREN OF THE NIGHT, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	TOTAL	TOTAL
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 123,724	\$ -	\$ 123,724	\$ 570,486
Grants receivable	-	110,907	110,907	83,387
Prepaid expenses	26,250	-	26,250	26,020
<i>Total current assets</i>	<u>149,974</u>	<u>110,907</u>	<u>260,881</u>	<u>679,893</u>
Property and equipment - net (Note 3)	1,236,987	-	1,236,987	1,256,024
TOTAL ASSETS	<u>\$ 1,386,961</u>	<u>\$ 110,907</u>	<u>\$ 1,497,868</u>	<u>\$ 1,935,917</u>
LIABILITIES				
<i>Current liabilities</i>				
Accounts payable	\$ 99,445	\$ -	\$ 99,445	\$ 38,110
Accrued expenses (Note 4)	358,004	-	358,004	323,816
Line of credit (Note 7)	18,444	-	18,444	19,993
Lease obligations - current (Note 8)	11,715	-	11,715	11,550
<i>Total current liabilities</i>	<u>487,608</u>	<u>-</u>	<u>487,608</u>	<u>393,469</u>
<i>Long-term liabilities</i>				
Lease obligations (Note 8)	14,551	-	14,551	26,266
<i>Total liabilities</i>	<u>502,159</u>	<u>-</u>	<u>502,159</u>	<u>419,735</u>
NET ASSETS				
Unrestricted net assets	884,802	-	884,802	1,432,795
Temporarily restricted (Note 5)	-	110,907	110,907	83,387
TOTAL NET ASSETS	<u>884,802</u>	<u>110,907</u>	<u>995,709</u>	<u>1,516,182</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,386,961</u>	<u>\$ 110,907</u>	<u>\$ 1,497,868</u>	<u>\$ 1,935,917</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, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017</u>	<u>2016</u>
SUPPORT				
Foundations	\$ 663,327	\$ -	\$ 663,327	\$ 519,437
Individuals	760,795	86,157	846,952	1,213,649
Corporations	394,490	24,750	419,240	416,710
Bequests	122,859	-	122,859	483,245
Total Support	<u>1,941,471</u>	<u>110,907</u>	<u>2,052,378</u>	<u>2,633,041</u>
REVENUE				
Other income	167	-	167	1,895
Investment income	108	-	108	11
Partnership income	13,761	-	13,761	15,012
Total Revenue	<u>14,036</u>	<u>-</u>	<u>14,036</u>	<u>16,918</u>
DONATED GOODS AND SERVICES	<u>51,054</u>	<u>-</u>	<u>51,054</u>	<u>1,501,274</u>
NET ASSETS RELEASED FROM RESTRICTIONS (NOTE 6)	<u>83,387</u>	<u>(83,387)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, and Reclassifications	<u>2,089,948</u>	<u>27,520</u>	<u>2,117,468</u>	<u>4,151,233</u>
EXPENSES				
Program Services				
Children's services	2,411,071	-	2,411,071	3,594,506
Supporting Services				
Management and general	122,723	-	122,723	155,497
Fund raising	104,147	-	104,147	95,430
Total Supporting Services	226,870	-	226,870	250,927
Total Expenses	<u>2,637,941</u>	<u>-</u>	<u>2,637,941</u>	<u>3,845,433</u>
CHANGE IN NET ASSETS	(547,993)	27,520	(520,473)	305,800
NET ASSETS, Beginning of year	<u>1,432,795</u>	<u>83,387</u>	<u>1,516,182</u>	<u>1,210,382</u>
NET ASSETS, End of year	<u>\$ 884,802</u>	<u>\$ 110,907</u>	<u>\$ 995,709</u>	<u>\$ 1,516,182</u>

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)

	<u>2017</u>				<u>2016</u>	
	<u>Program Services</u>	<u>Supporting Services</u>			<u>Total Expenses</u>	<u>Total Expenses</u>
	<u>Children's Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Subtotal</u>		
Salaries, payroll taxes and employee benefits	\$ 1,512,499	\$ 67,930	\$ 43,085	\$ 111,015	\$ 1,623,514	\$ 1,429,286
Advertising	1,275	425	12,463	12,888	14,163	13,740
Auto	8,134	904	-	904	9,038	7,122
Bank charges	11,697	1,462	1,462	2,924	14,621	10,910
Client support services	213,169	-	-	-	213,169	223,163
Depreciation	74,622	-	-	-	74,622	83,729
Dues and subscriptions	12,842	524	12,842	13,366	26,208	8,243
Insurance	71,825	6,384	1,596	7,980	79,805	82,315
Interest	1,462	183	183	366	1,828	2,718
International shelter	5,908	-	-	-	5,908	13,245
Legal and audit	8,313	3,563	-	3,563	11,876	10,000
Licensing fees	13,240	1,471	-	1,471	14,711	12,316
Miscellaneous	-	-	-	-	-	674
Outreach	16,413	-	-	-	16,413	-
Outside services	44,903	8,455	9,413	17,868	62,771	56,325
Postage and direct mail	1,096	365	5,847	6,212	7,308	13,127
Printing	16,436	139	3,299	3,438	19,874	14,493
Repairs and maintenance	96,893	19,529	-	19,529	116,422	113,727
School supplies	8,700	-	-	-	8,700	11,738
Small equipment	31,102	3,888	3,888	7,776	38,878	20,218
Staff development	35,493	2,088	4,176	6,264	41,757	47,908
Supplies	21,429	2,521	1,261	3,782	25,211	28,479
Taxes and fees	-	1,373	-	1,373	1,373	4,404
Telephone	28,864	1,519	-	1,519	30,383	23,113
Travel	87,999	-	4,632	4,632	92,631	67,623
Utilities	35,703	-	-	-	35,703	45,543
Total Expenses Before Donated Goods and Services	2,360,017	122,723	104,147	226,870	2,586,887	2,344,159
Donated goods and services	51,054	-	-	-	51,054	1,501,274
Total Expenses	\$ 2,411,071	\$ 122,723	\$ 104,147	\$ 226,870	\$ 2,637,941	\$ 3,845,433

See independent auditor's report and accompanying notes.

CHILDREN OF THE NIGHT, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (520,473)	\$ 305,800
Adjustments to reconcile change in net assets to net cash (used)/provided by operating activities		
Depreciation	74,622	83,729
(Increase) decrease in assets		
Grants receivable	(27,520)	(25,136)
Prepaid expenses	(230)	(7,655)
Increase (decrease) in liabilities		
Accounts payable	61,335	(91,876)
Accrued expenses	34,188	38,947
Net cash (used)/provided by operating activities	(378,078)	303,809
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(55,585)	(28,400)
Net cash (used) by investing activities	(55,585)	(28,400)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	(1,549)	(102)
Principle payments on lease obligation	(11,550)	(11,388)
Proceeds from lease obligation	-	28,400
Net cash (used)/provided by financing activities	(13,099)	16,910
NET (DECREASE)/INCREASE IN CASH	(446,762)	292,319
CASH AND CASH EQUIVALENTS, beginning of year	570,486	278,167
CASH AND CASH EQUIVALENTS, end of year	\$ 123,724	\$ 570,486
Supplemental Cash Flow Disclosures:		
Interest paid	\$ 1,828	\$ 2,718

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.

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.

(Note 2 continued on the following page)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Restricted and Unrestricted Revenue and Support

Contributions that are restricted by the donor are reported as increases in 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.

(Note 2 continued on the following page)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS

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, 2013 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, 2013 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, 2017 and 2016 the Organization received donated goods and services in the amounts of \$51,054 and \$1,501,274, 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.

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, 2017 and 2016 the uninsured amounts were none and \$440,522, respectively.

Advertising

The Organization uses advertising to promote its programs among the communities it serves. The production costs of advertising are expensed as incurred. During the years ended December 31, 2017 and 2016, advertising costs totaled \$14,162 and \$13,740, respectively.

(Note 2 continued on the following page)

CHILDREN OF THE NIGHT, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are recorded at cost if purchased and at fair value at the date of donation if donated. Repairs and maintenance are expensed as incurred and improvements of property and equipment items in excess of \$1,000 are capitalized. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets.

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

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment amount that will be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Grant 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, 2017 and 2016 was none.

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.

(Note 2 continued on the following page)

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016, from which the summarized information was derived.

New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets currently presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The guidance requires all not-for-profit entities to present expenses by both their natural and functional classification in a single location in the financial statements. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-14 will have on its financial statements.

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)	2017	2016
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	81,849
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	159,843	104,258
			<u>2,538,884</u>	<u>2,483,299</u>
Less accumulated depreciation			<u>(1,615,253)</u>	<u>(1,540,631)</u>
			923,631	942,668
Land			263,356	263,356
Mural			50,000	50,000
			<u>\$ 1,236,987</u>	<u>\$ 1,256,024</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$74,622 and \$83,729, respectively.

NOTE 4 – ACCRUED EXPENSES

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

	2017	2016
Payroll	\$ 57,471	\$ 51,524
Paid time off	298,230	270,625
Client funds payable	1,667	1,667
Other	636	-
Total	<u>\$ 358,004</u>	<u>\$ 323,816</u>

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Temporarily restricted net assets:		
General support	<u>\$ 110,907</u>	<u>\$ 83,387</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>2017</u>	<u>2016</u>
Net assets released from time restrictions:		
General support	\$ <u>83,387</u>	\$ <u>58,251</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 \$1,556 and \$1,105 at December 31, 2017 and 2016, respectively. Bank advances on the credit line are payable on demand and carry a variable interest rate of calculated as the Prime Rate (4.50% at December 31, 2017) plus 275 basis points per annum. The interest rate has a floor of 3.50% and a ceiling of 16.00%. At December 31, 2017 and 2016 the interest rate was 7.25% and 6.50% 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, 2017 was \$11,543.

The obligation under the capital leases consist of the following:

	<u>2017</u>	<u>2016</u>
Total	\$ 26,266	\$ 37,816
Less current portion	<u>(11,715)</u>	<u>(11,550)</u>
Long-term portion	<u>\$ 14,551</u>	<u>\$ 26,266</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:

2018	\$	11,968
2019		8,865
2020		<u>5,813</u>
		26,646
Less: amounts attributable to interest		<u>(380)</u>
Total lease payable	\$	<u><u>26,266</u></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, 2017 are as follows:

Years ending December 31:		
2018	\$	<u><u>4,267</u></u>

Rent expense for the years ended December 31, 2017 and 2016 was \$9,038 and \$7,122 respectively.

NOTE 9 – RELATED PARTY TRANSACTIONS AND SUBSEQUENT EVENT

During 2018, the Organization accepted a \$100,000 variable interest rate loan from the Organization's Vice Chair of the Board of Directors, for the purposes of transitioning the Organization from operating a physical shelter that served only 62 children a year to a case management and online high school equivalency education program to serve far more children each year.

NOTE 10 – SUBSEQUENT EVENTS

Events subsequent to December 31, 2017 have been evaluated through July 24, 2018, the date at which the Organization's audited financial statements were to be issued. Except as disclosed in Note 9 above, no events requiring disclosure have occurred through this date.