CHILDREN'S RIGHTS, INC.

Audited Financial Statements

December 31, 2009
REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of 
Children's Rights, Inc.

We have audited the accompanying statement of financial position of Children's Rights, Inc. (the "Organization") as of December 31, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's December 31, 2008 financial statements and, in our report dated June 2, 2009 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Rights, Inc. as of December 31, 2009, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Schall & Ashenfarb
Certified Public Accountants, LLC

May 25, 2010
CHILDREN'S RIGHTS, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2009
(With comparative totals for December 31, 2008)

<table>
<thead>
<tr>
<th>Assets</th>
<th>12/31/09</th>
<th>12/31/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents (Notes 2d and 9)</td>
<td>$4,114,651</td>
<td>$4,303,383</td>
</tr>
<tr>
<td>Investments (Notes 2f and 3)</td>
<td>4,113,271</td>
<td>1,115,629</td>
</tr>
<tr>
<td>Attorneys' fees receivable (Note 2f)</td>
<td>6,614,353</td>
<td>5,697,420</td>
</tr>
<tr>
<td>Contributions receivable (Notes 2j and 4)</td>
<td>340,893</td>
<td>59,890</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>16,641</td>
<td>31,463</td>
</tr>
<tr>
<td>Property and equipment, net (Notes 2g and 5)</td>
<td>182,135</td>
<td>215,923</td>
</tr>
<tr>
<td>Security deposit (Note 6)</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$15,481,944</td>
<td>$11,523,708</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities:</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
</tr>
<tr>
<td>Conditional contributions (Note 2j)</td>
</tr>
<tr>
<td>Deferred rent (Note 2h)</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commitments (Note 6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets:</td>
</tr>
<tr>
<td>Unrestricted (Note 2e)</td>
</tr>
<tr>
<td>Undesignated</td>
</tr>
<tr>
<td>Board designated reserve fund</td>
</tr>
<tr>
<td><strong>Total unrestricted</strong></td>
</tr>
<tr>
<td>Temporarily restricted (Notes 2e and 7)</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
</tr>
</tbody>
</table>

*The attached notes and auditors' report are an integral part of these financial statements.*
# CHILDREN'S RIGHTS, INC.
## STATEMENT OF ACTIVITIES
### FOR THE YEAR ENDED DECEMBER 31, 2009
(With comparative totals for the year ended December 31, 2008)

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Board</th>
<th>Designated</th>
<th>Temporarily Restricted</th>
<th>Total 12/31/09</th>
<th>Total 12/31/08</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Undesignated</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Designated Reserve Fund</td>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public support and revenue:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attorneys' fees income (Note 2i)</td>
<td>$7,167,494</td>
<td>$7,167,494</td>
<td>$7,167,494</td>
<td>$10,274,935</td>
<td></td>
</tr>
<tr>
<td>Contributions (Note 2j)</td>
<td>732,178</td>
<td>732,178</td>
<td>$257,557</td>
<td>989,735</td>
<td>1,942,332</td>
</tr>
<tr>
<td>Special event income (net of costs of $74,007 for direct benefits to donors)</td>
<td>367,269</td>
<td>367,269</td>
<td>367,269</td>
<td>595,760</td>
<td></td>
</tr>
<tr>
<td>In-kind donations (Note 2k)</td>
<td>21,234</td>
<td>21,234</td>
<td>21,234</td>
<td>43,694</td>
<td></td>
</tr>
<tr>
<td>Investment income/(loss) (Notes 2f and 3)</td>
<td>36,272</td>
<td>$103,978</td>
<td>140,250</td>
<td>140,250</td>
<td>(76,926)</td>
</tr>
<tr>
<td>Program income</td>
<td>14,393</td>
<td>14,393</td>
<td>14,393</td>
<td>12,000</td>
<td></td>
</tr>
<tr>
<td>Net assets released from restrictions (Note 7)</td>
<td>461,027</td>
<td>461,027</td>
<td>(461,027)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total public support and revenue</td>
<td>8,799,867</td>
<td>103,978</td>
<td>8,903,845</td>
<td>(203,470)</td>
<td>8,700,375</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program services</td>
<td>3,702,930</td>
<td>3,702,930</td>
<td>3,702,930</td>
<td>3,230,432</td>
<td></td>
</tr>
<tr>
<td>Management and general</td>
<td>375,438</td>
<td>375,438</td>
<td>375,438</td>
<td>414,050</td>
<td></td>
</tr>
<tr>
<td>Fundraising</td>
<td>647,400</td>
<td>647,400</td>
<td>647,400</td>
<td>871,857</td>
<td></td>
</tr>
<tr>
<td>Total expenses</td>
<td>4,725,768</td>
<td>0</td>
<td>4,725,768</td>
<td>0</td>
<td>4,725,768</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>4,074,099</td>
<td>103,978</td>
<td>4,178,077</td>
<td>(203,470)</td>
<td>3,974,607</td>
</tr>
<tr>
<td>Net assets - beginning of year</td>
<td>8,892,084</td>
<td>1,419,980</td>
<td>10,312,064</td>
<td>578,298</td>
<td>10,890,362</td>
</tr>
<tr>
<td>Transfers</td>
<td>(200,000)</td>
<td>200,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net assets - end of year</td>
<td>$12,766,183</td>
<td>$1,723,958</td>
<td>$14,490,141</td>
<td>$374,828</td>
<td>$14,864,969</td>
</tr>
</tbody>
</table>

*The attached notes and auditors' report are an integral part of these financial statements.*

3
<table>
<thead>
<tr>
<th></th>
<th>Program Services</th>
<th>Management and General</th>
<th>Fundraising</th>
<th>Total Expenses 12/31/09</th>
<th>Total Expenses 12/31/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$2,168,165</td>
<td>$217,462</td>
<td>$277,919</td>
<td>$2,663,546</td>
<td>$2,406,886</td>
</tr>
<tr>
<td>Employee benefits and taxes</td>
<td>541,862</td>
<td>53,332</td>
<td>67,677</td>
<td>662,871</td>
<td>605,163</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total salaries and related expenses</td>
<td>2,710,027</td>
<td>270,794</td>
<td>345,596</td>
<td>3,326,417</td>
<td>3,012,049</td>
</tr>
<tr>
<td>Professional fees</td>
<td>47,780</td>
<td>18,750</td>
<td>77,384</td>
<td>143,914</td>
<td>219,512</td>
</tr>
<tr>
<td>Litigation costs</td>
<td>16,913</td>
<td></td>
<td>16,913</td>
<td>46,953</td>
<td></td>
</tr>
<tr>
<td>Research and legal library</td>
<td>33,384</td>
<td></td>
<td>1,515</td>
<td>34,899</td>
<td>30,304</td>
</tr>
<tr>
<td>Donated services</td>
<td>15,722</td>
<td></td>
<td>5,512</td>
<td>21,234</td>
<td>43,694</td>
</tr>
<tr>
<td>Events</td>
<td></td>
<td></td>
<td>104,865</td>
<td>104,865</td>
<td>152,348</td>
</tr>
<tr>
<td>Travel</td>
<td>273,652</td>
<td></td>
<td>3,346</td>
<td>277,492</td>
<td>262,258</td>
</tr>
<tr>
<td>Occupancy</td>
<td>333,344</td>
<td></td>
<td>42,729</td>
<td>409,506</td>
<td>392,362</td>
</tr>
<tr>
<td>Computer support and maintenance</td>
<td>82,031</td>
<td>6,555</td>
<td>15,059</td>
<td>103,645</td>
<td>88,198</td>
</tr>
<tr>
<td>Office supplies and expense</td>
<td>143,998</td>
<td>12,465</td>
<td>49,649</td>
<td>206,112</td>
<td>194,114</td>
</tr>
<tr>
<td>Insurance</td>
<td>8,133</td>
<td>6,019</td>
<td>14,152</td>
<td>13,928</td>
<td></td>
</tr>
<tr>
<td>Licenses and fees</td>
<td>8,357</td>
<td>18,449</td>
<td>3,464</td>
<td>30,270</td>
<td>23,084</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total expenses before depreciation</td>
<td>3,673,341</td>
<td>372,471</td>
<td>643,607</td>
<td>4,689,419</td>
<td>4,478,804</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>29,589</td>
<td>2,967</td>
<td>3,793</td>
<td>36,349</td>
<td>37,535</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$3,702,930</td>
<td>$375,438</td>
<td>$647,400</td>
<td>$4,725,768</td>
<td>$4,516,339</td>
</tr>
</tbody>
</table>

The attached notes and auditors' report are an integral part of these financial statements.
The attached notes and auditors' report are an integral part of these financial statements.
Note 1 - Summary of Significant Accounting Policies

Children's Rights, Inc. (the "Organization") is a not-for-profit corporation founded in 1994 to advocate for the rights of children in the custody of government agencies. The Organization is exempt from Federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and from state and local taxes under comparable laws.

Note 2 - Financial Reporting

a. Basis of Accounting
   The accompanying financial statements of the Organization have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

b. Functional Allocation of Expenses
   The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management.

c. Use of Estimates
   The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

d. Cash and Cash Equivalents
   All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents for purposes of the accompanying statements of cash flows.

e. Net Assets
   As a not-for-profit organization, information regarding its financial position and activities is reported according to separate classes of net assets based on the existence or absence of donor restrictions:

   - Unrestricted – represent those resources for which there are no restrictions by donors as to their use. The Organization has chosen to present its unrestricted net assets in two distinct categories: undesignated and board designated reserve fund.
• Temporarily restricted – represent those resources the use of which have been restricted by donors to specific purposes or the passage of time. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor.

f. Investments and Investment Income
Investments in marketable securities with readily available prices are reported at their fair market values. Donated securities are recorded at their fair values on the dates of the gifts. Net investment income is recorded in unrestricted net assets.

g. Property and Equipment
Property and equipment are stated at their costs or at their fair market values at the dates of donation. Furniture and office equipment are depreciated using the straight-line method over estimated useful lives of three to seven years. Leasehold improvements are amortized using the straight-line method over the remaining life of the lease.

h. Deferred Rent
Rent expense is recorded on the straight-line basis over the life of the lease. Rent expense recognized in excess of cash payments, primarily due to free rent received at the beginning of the lease, is reflected as deferred rent.

i. Attorneys' Fees Income
Legal fees and expenses may be awarded in certain court cases. The amounts of these awards are the results of court determinations and appellate decisions, or of negotiations between the parties to the actions. Management anticipates that the Organization will be the recipient of legal awards in the future, but it is often unable to determine the amounts receivable with any degree of accuracy. Accordingly, the Organization's accounting policy is to accrue an award only when, in its judgment, the amount appears certain of collection.

j. Contributions
Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Contributions received whose restrictions expire in the same year are recorded as unrestricted.

Contributions received with conditions are recorded as liabilities and are recognized as income at the time the condition has been met and the contribution changes to unconditional in nature.

k. In-Kind Donations
The Organization recognizes contributions of services that create or enhance non-financial assets or require specialized skills that are provided by those possessing those skills and would have been paid if not contributed. In-kind legal services of $21,234 have been recognized during the year.
1. **Comparative Financial Information**
   The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

m. **Subsequent Events**
   Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through May 25, 2010, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements.

**Note 3 - Investments**

FASB Accounting Standards Codification (ASC) 820 (formerly SFAS No. 157) establishes a fair value hierarchy giving the highest priority to quoted market prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The fair value of investments held is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>12/31/09</th>
<th>12/31/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate bonds</td>
<td>0</td>
<td>587,536</td>
<td>$587,536</td>
<td>$575,301</td>
</tr>
<tr>
<td>Fixed income funds</td>
<td>100,045</td>
<td>0</td>
<td>100,045</td>
<td>103,648</td>
</tr>
<tr>
<td>Equity funds</td>
<td>429,911</td>
<td>0</td>
<td>429,911</td>
<td>436,680</td>
</tr>
<tr>
<td>Treasury Bills</td>
<td>2,995,779</td>
<td>0</td>
<td>2,995,779</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,525,735</strong></td>
<td><strong>$587,536</strong></td>
<td><strong>$4,113,271</strong></td>
<td><strong>$1,115,629</strong></td>
</tr>
</tbody>
</table>

During the year ended December 31, 2009, investment income consisted of the following:

- Interest and dividends income: $71,377
- Realized gain on investments: 3,841
- Unrealized gain on investments: $65,032

**Total**: $140,250
Note 4 - Contributions Receivable

As of December 31, 2009, management expects all receivables to be fully collectible within one year. As such, no allowance for doubtful accounts has been provided.

Note 5 - Property and Equipment

At December 31, 2009, property and equipment consisted of the following:

Furniture and equipment $278,124
Leasehold improvements 471,742
749,866
Less: accumulated depreciation and amortization (567,731)
Total $182,135

Note 6 - Commitments

The Organization has a non-cancelable lease agreement for office space which expires in 2016. Under terms of that lease, the Organization was required to establish an irrevocable standby letter of credit, which represents four months rent. A certificate of deposit account was established in the amount of $100,000 for this purpose. Future minimum payments, excluding utilities and other escalations, under the lease are as follows:

December 31, 2010 $317,810
December 31, 2011 346,929
December 31, 2012 359,153
December 31, 2013 368,054
December 31, 2014 377,177
Thereafter 443,097
Total $2,232,220

Note 7 - Temporarily Restricted Net Assets

As mentioned in Note 2e, donor contributions whose use is restricted by the donor are recorded in the temporarily restricted class of net assets. The following schedule summarizes temporarily restricted net assets:

<table>
<thead>
<tr>
<th></th>
<th>Balance 1/1/09</th>
<th>Increases</th>
<th>Released from Restrictions</th>
<th>Balance 12/31/09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program restriction:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy projects</td>
<td>$259,474</td>
<td>$230,000</td>
<td>($221,627)</td>
<td>$267,847</td>
</tr>
<tr>
<td>Jackson attorney</td>
<td>186,060</td>
<td>0</td>
<td>(88,476)</td>
<td>97,584</td>
</tr>
<tr>
<td>Other program restrictions</td>
<td>132,764</td>
<td>27,557</td>
<td>(150,924)</td>
<td>9,397</td>
</tr>
<tr>
<td>Total</td>
<td>$578,298</td>
<td>$257,557</td>
<td>($461,027)</td>
<td>$374,828</td>
</tr>
</tbody>
</table>
Note 8 - Pension Plan

The Organization sponsors a defined-contribution pension plan. Employees that have one year of service and have worked at least 1,000 hours are eligible to participate. The Organization's contributions are determined annually, on a discretionary basis, which was 6% in 2009. Contributions for certain employees, who have been with the Organization for a specified period of time, are made at an amount that is the greater of a specific formula or the standard discretionary amount. Total contributions for 2009 totaled $135,924.

Note 9 - Concentration of Credit Risk

Financial instruments which potentially subject the Organization to concentration of credit risk consist of cash, money market accounts and investment securities.

The Organization places its cash, money market and investment accounts with creditworthy, high-quality financial institutions. Accounts held at banks are FDIC insured. At year end, the Organization did not have any material amounts exceeding the FDIC limits. The Organization also held cash and investments of $1,819,679 at a brokerage firm which is covered under SIPC. Management believes the risks are prudent because of creditworthiness of the institution and additional insurance provided by the brokerage firm.