SCHALL & ASHENFARB Certified Public Accountants, LLC

IRA L. SCHALL, CPA
DAVID C. ASHENFARB, CPA

CHILDREN'S RIGHTS, INC.

Audited Financial Statements

December 31, 2009

350 Fifth Avenue, Suite 728
New York, New York 10118
Tel: (212) 268-2800 Fax: (212) 268-2805
www.schallandashenfarb.com

SCHALL
&ASHENFARB Certified Public Accountants, LLC

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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
Schall & Ashenfarb
Certified Public Accountants, LLC

May 25, 2010

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New York, New York 10118
Tel: (212) 268-2800 Fax: (212) 268-2805
www.schallandashenfarb.com

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

	12/31/09	12/31/08
Assets		
Cash and cash equivalents (Notes 2d and 9)	$4,114,651	$4,303,383
Investments (Notes 2f and 3)	4,113,271	1,115,629
Attorneys' fees receivable (Note 2i)	6,614,353	5,697,420
Contributions receivable (Notes 2j and 4)	340,893	59,890
Prepaid expenses and other current assets	16,641	31,463
Property and equipment, net (Notes 2g and 5)	182,135	215,923
Security deposit (Note 6)	100,000	100,000
Total assets	$15,481,944	$11,523,708
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$383,160	$406,102
Conditional contributions (Note 2j)	0	57,077
Deferred rent (Note 2h)	233,815	170,167
Total liabilities	616,975	633,346
Commitments (Note 6)		
Net assets:		
Unrestricted (Note 2e)		
Undesignated	12,766,183	8,892,084
Board designated reserve fund	1,723,958	1,419,980
Total unrestricted	14,490,141	10,312,064
Temporarily restricted (Notes 2e and 7)	374,828	578,298
Total net assets	14,864,969	10,890,362
Total liabilities and net assets	$15,481,944	$11,523,708

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)

	Unrestricted					
	Undesignated	Board Designated Reserve Fund	Total	Temporarily Restricted	Total 12/31/09	Total 12/31/08
Public support and revenue:						
Attorneys' fees income (Note 2i)	$7,167,494		$7,167,494		$7,167,494	$10,274,935
Contributions (Note 2j)	732,178		732,178	$257,557	989,735	1,942,332
Special event income (net of costs of $74,007 for direct benefits to donors)	367,269		367,269		367,269	595,760
In-kind donations (Note 2k)	21,234		21,234		21,234	43,694
Investment income/(loss) (Notes 2f and 3)	36,272	$103,978	140,250		140,250	(76,926)
Program income	14,393		14,393		14,393	12,000
Net assets released from restrictions (Note 7)	461,027		461,027	(461,027)	0	0
Total public support and revenue	8,799,867	103,978	8,903,845	(203,470)	8,700,375	12,791,795
Expenses:						
Program services	3,702,930		3,702,930		3,702,930	3,230,432
Management and general	375,438		375,438		375,438	414,050
Fundraising	647,400		647,400		647,400	871,857
Total expenses	4,725,768	0	4,725,768	0	4,725,768	4,516,339
Change in net assets	4,074,099	103,978	4,178,077	(203,470)	3,974,607	8,275,456
Net assets - beginning of year	8,892,084	1,419,980	10,312,064	578,298	10,890,362	2,614,906
Transfers	(200,000)	200,000	0		0	0
Net assets - end of year	$12,766,183	$1,723,958	$14,490,141	$374,828	$14,864,969	$10,890,362

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

CHILDREN'S RIGHTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009
(With comparative totals for the year ended December 31, 2008)

	Program Services	Management and General	Fundraising	Total Expenses 12/31/09	Total Expenses 12/31/08
Salaries	$2,168,165	$217,462	$277,919	$2,663,546	$2,406,886
Employee benefits and taxes	541,862	53,332	67,677	662,871	605,163
Total salaries and related expenses	2,710,027	270,794	345,596	3,326,417	3,012,049
Professional fees	47,780	18,750	77,384	143,914	219,512
Litigation costs	16,913			16,913	46,953
Research and legal library	33,384		1,515	34,899	30,304
Donated services	15,722	5,512		21,234	43,694
Events			104,865	104,865	152,348
Travel	273,652	494	3,346	277,492	262,258
Occupancy	333,344	33,433	42,729	409,506	392,362
Computer support and maintenance	82,031	6,555	15,059	103,645	88,198
Office supplies and expense	143,998	12,465	49,649	206,112	194,114
Insurance	8,133	6,019		14,152	13,928
Licenses and fees	8,357	18,449	3,464	30,270	23,084
Total expenses before depreciation	3,673,341	372,471	643,607	4,689,419	4,478,804
Depreciation and amortization	29,589	2,967	3,793	36,349	37,535
Total expenses	$3,702,930	$375,438	$647,400	$4,725,768	$4,516,339

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

CHILDREN'S RIGHTS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009
(With comparative totals for the year ended December 31, 2008)

	12/31/09	12/31/08
Cash flows from operating activities:		
Change in net assets	$3,974,607	$8,275,456
Adjustments to reconcile change in net assets to net cash provided by/(used for) operating activities:		
Depreciation and amortization	36,349	37,535
Net realized and unrealized (gain)/loss on investments	(68,873)	154,363
(Increase)/decrease in assets:		
Attorneys' fees receivable	(916,933)	(5,524,347)
Contributions receivable	(281,003)	1,306,106
Prepaid expenses and other current assets	14,822	(26,692)
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	(22,942)	38,238
Conditional contributions	(57,077)	57,077
Deferred rent	63,648	19,264
Total adjustments	(1,232,009)	(3,938,456)
Net cash flows provided by operating activities	2,742,598	4,337,000
Cash flows from investing activities:		
Purchases of property and equipment	(2,561)	(13,166)
Purchases of investments	(2,995,779)	(655,995)
Proceeds from sales of investments	67,010	544,613
Net cash flows used for investing activities	(2,931,330)	(124,548)
Cash flows from financing activities:		
Repayments of loan payable	0	(750,000)
Net cash flows used for financing activities	0	(750,000)
Net (decrease)/increase in cash and cash equivalents	(188,732)	3,462,452
Cash and cash equivalents - beginning of year	4,303,383	840,931
Cash and cash equivalents - end of year	$4,114,651	$4,303,383

Supplemental disclosure of cash flow information:
Noncash donation of services - $21,234
Total interest and taxes paid - $0

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

CHILDREN'S RIGHTS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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.

l. 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:

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

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
	$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	$2,212,220

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:

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

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.