SCHALL & ASHENFARB Certified Public Accountants, LLC

IRA L. SCHALL, CPA
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CHILDREN'S RIGHTS, INC.

Audited Financial Statements

December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of Children's Rights, Inc. (the "Organization") which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the 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.

Auditor's 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 require 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the position of Children's Rights, Inc. as of December 31, 2012, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report of Summarized Comparative Information

We have previously audited the Organization's 2011 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated June 13, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

June 3, 2013

CHILDREN'S RIGHTS, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012
(With comparative totals for December 31, 2011)

	12/31/12	12/31/11
Assets		
Cash and cash equivalents (Notes 2c and 10)	$1,870,589	$6,230,138
Investments (Notes 2d and 3)	4,306,390	3,766,330
Attorneys' fees receivable (Note 2g)	602,708	1,279,112
Contributions receivable, net of allowance (Notes 2h and 4)	327,319	403,908
Prepaid expenses and other current assets	26,859	23,618
Fixed assets, net (Notes 2e and 5)	152,463	197,222
Security deposit (Note 7)	100,000	100,000
Total assets	$7,386,328	$12,000,328
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$836,710	$495,833
Deferred rent (Note 2f)	175,653	212,896
Loan payable (Note 6)	350,000	350,000
Total liabilities	1,362,363	1,058,729
Commitments (Note 7)		
Net assets:		
Unrestricted (Note 2b)		
Undesignated	2,590,545	7,607,138
Board designated reserve fund	3,103,445	2,787,264
Total unrestricted	5,693,990	10,394,402
Temporarily restricted (Notes 2b and 8)	329,975	547,197
Total net assets	6,023,965	10,941,599
Total liabilities and net assets	$7,386,328	$12,000,328

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, 2012
(With comparative totals for the year ended December 31, 2011)

	Unrestricted					
	Undesignated	Board Designated Reserve Fund	Total	Temporarily Restricted	Total 12/31/12	Total 12/31/11
Public support and revenue:						
Attorneys' fees income (Note 2g)	$1,519,374		$1,519,374		$1,519,374	$2,374,396
Contributions (Note 2h)	499,295		499,295	$229,975	729,270	1,519,075
Special event income (net of costs of $115,253 for direct benefits to donors)	483,712		483,712		483,712	435,032
In-kind donations (Note 2i)	28,500		28,500		28,500	57,000
Investment income (Notes 2d and 3)	12,990	$316,181	329,171		329,171	87,793
Program income	12,397		12,397		12,397	12,099
Net assets released from restrictions (Note 8)	447,197		447,197	(447,197)	0	0
Total public support and revenue	3,003,465	316,181	3,319,646	(217,222)	3,102,424	4,485,395
Expenses:						
Program services	6,325,552		6,325,552		6,325,552	5,696,970
Management and general	679,028		679,028		679,028	896,981
Fundraising	1,015,478		1,015,478		1,015,478	1,045,686
Total expenses	8,020,058	0	8,020,058	0	8,020,058	7,639,637
Change in net assets	(5,016,593)	316,181	(4,700,412)	(217,222)	(4,917,634)	(3,154,242)
Net assets - beginning of year	7,607,138	2,787,264	10,394,402	547,197	10,941,599	14,095,841
Net assets - end of year	$2,590,545	$3,103,445	$5,693,990	$329,975	$6,023,965	$10,941,599

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, 2012
(With comparative totals for the year ended December 31, 2011)

	Program Services	Management and General	Fundraising	Total Expenses 12/31/12	Total Expenses 12/31/11
Salaries	$3,131,848	$310,550	$524,058	$3,966,456	$3,849,143
Employee benefits and taxes	761,192	75,479	127,371	964,042	920,145
Total salaries and related expenses	3,893,040	386,029	651,429	4,930,498	4,769,288
Professional fees	38,961	56,293	56,234	151,488	267,184
Litigation costs	1,314,157			1,314,157	920,981
Research and legal library	52,441	300	260	53,001	48,278
Donated services	3,000	8,000		11,000	57,000
Events			221,202	221,202	169,524
Travel	330,619		3,279	333,898	433,460
Occupancy	335,924	59,281	29,640	424,845	429,179
Computer support and maintenance	111,742	16,131	20,212	148,085	136,164
Office supplies	180,159	29,830	21,825	231,814	302,153
Bad debt expense		65,800		65,800	380
Insurance	11,859	7,345		19,204	17,892
Training	7,338	2,217	85	9,640	7,970
Licenses and fees	7,716	23,491	7,906	39,113	34,922
Interest expense (Note 6)		17,500		17,500	0
Total expenses before depreciation	6,286,956	672,217	1,012,072	7,971,245	7,594,375
Depreciation and amortization	38,596	6,811	3,406	48,813	45,262
Total expenses	$6,325,552	$679,028	$1,015,478	$8,020,058	$7,639,637

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, 2012
(With comparative totals for the year ended December 31, 2011)

	12/31/12	12/31/11
Cash flows from operating activities:		
Change in net assets	($4,917,634)	($3,154,242)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	48,813	45,262
Net realized and unrealized gain on investments	(169,249)	(1,533)
(Increase)/decrease in assets:		
Attorneys' fees receivable	676,404	(683,731)
Contributions receivable	76,589	73,884
Prepaid expenses and other current assets	(3,241)	(9,779)
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	340,877	83,587
Deferred rent	(37,243)	(25,019)
Total adjustments	932,950	(517,329)
Net cash flows used for operating activities	(3,984,684)	(3,671,571)
Cash flows from investing activities:		
Purchases of property and equipment	(4,054)	(85,021)
Purchases of investments	(4,911,250)	(2,762,337)
Proceeds from sales of investments	4,540,439	185,830
Net cash flows used for investing activities	(374,865)	(2,661,528)
Cash flows from financing activities:		
Proceeds from loan payable	0	350,000
Net cash flows provided by financing activities	0	350,000
Net decrease in cash and cash equivalents	(4,359,549)	(5,983,099)
Cash and cash equivalents - beginning of year	6,230,138	12,213,237
Cash and cash equivalents - end of year	$1,870,589	$6,230,138

Supplemental disclosure of cash flow information:
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, 2012

Note 1 - Summary of Significant Accounting Policies

Children's Rights, Inc. (the "Organization") is a national advocacy group working to reform failing child welfare systems on behalf of the hundreds of thousands of abused and neglected children who depend on them for protection and care. Children's Rights, Inc. is a not-for-profit corporation founded in 1994 and 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 have been prepared using the accrual basis of accounting which is the process of recognizing revenue and expenses when earned or incurred rather than when received or paid. All significant receivables, payables, and other liabilities have been reflected.

b. Basis of Presentation
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, as follows:

- *Unrestricted* – represent those resources for which there are no restrictions by the 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.

c. 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 statement of cash flows.

d. Investments and Investment Income
Investments are recorded at fair value, which is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Donated securities are recorded at their fair values on the dates of the gifts. Realized and unrealized gains and losses are included in income on the statement of activities.

e. Fixed Assets

Property and equipment are recorded at cost or at fair values at the dates of donation. Leasehold improvements that significantly add benefit to the property and have a useful life of greater than one year are capitalized at cost. Routine maintenance is expensed as incurred.

Property, equipment and leasehold improvements are depreciated or amortized using the straight-line method over the estimated useful life of the asset (between three to seven years) or the remaining life of the lease.

f. Deferred Rent

Rent expense is recognized evenly over the life of the lease using the straight-line basis. 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. In future years, when payments exceed the amount of rent recognized as expense the deferred rent will be reduced until it is zero at the end of the lease.

g. 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 accounting policy is to accrue an award only when, in its judgment, the amount appears certain of collection.

h. Contributions

Contributions are recognized at the earlier of when cash is received or at the time a pledge becomes unconditional in nature. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. However, when a restriction is met in the period the contribution is received, it is recorded as unrestricted.

Contributions that are due within one year are recorded at their net realizable value. Long-term pledges are recorded at fair value, using risk adjusted present value techniques. Pledges are reviewed for collectability. Management has not established a reserve for uncollectable pledges as they deem all pledges to be collectable.

Contributions received with conditions are recorded as liabilities and are recognized as income at the time the condition has been met.

i. In-Kind Donations

The Organization recognizes contributions of services that either 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 $11,000 and imputed interest of $17,500 on the outstanding loan payable have been recognized during the year.

j. 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, 2011, from which the summarized information was derived.

k. 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 statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management.

l. Management 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.

m. Accounting for Uncertainty of Income Taxes

The Organization does not believe its financial statements include any uncertain tax positions. Tax filings for the periods ending December 31, 2009 and later are subject to examination by applicable taxing authorities.

n. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through June 3, 2013, 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

Accounting standards have established 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 not 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 12/31/12	Total 12/31/11
Corporate bonds	$0	$647,076	$647,076	$599,135
Government bond	0	400,155	400,155	0
Fixed income funds	1,972,088	0	1,972,088	92,524
Equity funds	156,234	0	156,234	1,545,172
Certificates of deposit	0	1,130,837	1,130,837	1,577,085
	$2,128,322	$2,178,068	$4,306,390	$3,766,330

During the year ended December 31, 2012, investment income consisted of the following:

Interest and dividends income	$159,922
Realized gain on investments	28,291
Unrealized gain on investments	140,958
	$329,171

Note 4 - Contributions Receivable

At December 31, 2012, unconditional contributions receivables of $327,319 were due as follows:

Year ending:	December 31, 2013	$224,319
	December 31, 2014	50,000
	December 31, 2015	50,000
	December 31, 2016	50,000
		$374,319

Less: allowance for doubtful accounts	(45,000)
Less: adjustment to fair value	(2,000)
Total	$327,319

Note 5 - Property and Equipment

At December 31, 2012, property and equipment consisted of the following:

Furniture and equipment	$354,145
Leasehold improvements	498,675
	852,820
Less: accumulated depreciation and amortization	(700,357)
Total	$152,463

Note 6 - Loan Payable

On August 25, 2011, the Organization received an interest free loan from a foundation for $350,000. Terms of the promissory note require the Organization to repay this loan in full by August 25, 2014; however, it is the intention of the foundation to forgive this loan under certain circumstances. Interest has been imputed at a rate of 5%.

Note 7 - Commitments

The Organization has a non-cancelable lease agreement for office space which expires in 2016. Under terms of that lease, an irrevocable standby letter of credit, which represents four months' rent, was established. A certificate of deposit account was opened 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, 2013	$365,634
December 31, 2014	374,697
December 31, 2015	383,987
December 31, 2016	161,624
Total	$1,285,942

Note 8 - Temporarily Restricted Net Assets

The following schedule summarizes the activity of temporarily restricted net assets:

	Balance 1/1/12	Contributions	Released from Restrictions	Balance 12/31/12
Program restriction:				
Staff growth	$147,197	$0	($147,197)	$0
Reform efforts in TN, GA, & MS	0	25,000	0	25,000
Social marketing	50,000	0	(50,000)	0
Chief operating officer	100,000	84,975	(100,000)	84,975
Total program restriction	297,197	109,975	(297,197)	109,975
Time restrictions	250,000	120,000	(150,000)	220,000
Total	$547,197	$229,975	($447,197)	$329,975

Note 9 - Pension Plan

Employees that have one year of service and have worked at least 1,000 hours are eligible to participate in an employer sponsored defined-contribution pension plan. Contributions are determined annually, on a discretionary basis, which was 6% in 2012. Contributions for certain employees, who have been employed 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 to the plan for 2012 totaled $208,316.

Note 10 - 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 which have been placed with financial institutions that management deems to be creditworthy. Some accounts are insured by the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation. At year-end and at various times during the year, the Organization had material uninsured balances; however, no losses have been suffered due to the failure of any of these institutions.