

CHILDREN'S RIGHTS, INC.

Audited Financial Statements

December 31, 2013

INDEPENDENT AUDITORS' 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, 2013, 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.

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 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 auditors' 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.

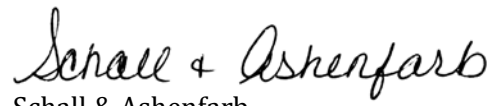
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Rights, Inc. as of December 31, 2013, 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 2012 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated June 3, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.


Schall & Ashenfarb
Certified Public Accountants, LLC

June 5, 2014

CHILDREN'S RIGHTS, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013
(With comparative totals for December 31, 2012)

	<u>12/31/13</u>	<u>12/31/12</u>
Assets		
Cash and cash equivalents (Notes 2c and 10)	\$4,097,622	\$1,870,589
Investments (Notes 2d and 3)	4,200,806	4,306,390
Attorneys' fees receivable (Note 2g)	733,479	602,708
Contributions receivable, net of allowance (Notes 2h and 4)	323,831	327,319
Prepaid expenses and other current assets	22,129	26,859
Fixed assets, net (Notes 2e and 5)	139,579	152,463
Security deposit (Note 7)	<u>100,000</u>	<u>100,000</u>
Total assets	<u><u>\$9,617,446</u></u>	<u><u>\$7,386,328</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$497,582	\$836,710
Deferred rent (Note 2f)	129,509	175,653
Loan payable (Note 6)	0	350,000
Total liabilities	<u>627,091</u>	<u>1,362,363</u>
Commitments (Note 7)		
Net assets:		
Unrestricted (Note 2b)		
Undesignated	5,450,875	2,590,545
Board designated reserve fund	3,169,480	3,103,445
Total unrestricted	<u>8,620,355</u>	<u>5,693,990</u>
Temporarily restricted (Notes 2b and 8)	<u>370,000</u>	<u>329,975</u>
Total net assets	<u>8,990,355</u>	<u>6,023,965</u>
Total liabilities and net assets	<u><u>\$9,617,446</u></u>	<u><u>\$7,386,328</u></u>

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, 2013
(With comparative totals for the year ended December 31, 2012)

	Unrestricted			Temporarily Restricted	Total 12/31/13	Total 12/31/12
	Board		Total			
	Undesignated	Designated Reserve Fund				
Public support and revenue:						
Attorneys' fees income (Note 2g)	\$7,071,795		\$7,071,795		\$7,071,795	\$1,519,374
Contributions (Note 2h)	1,360,967		1,360,967	\$220,000	1,580,967	729,270
Special event income (net of costs of \$84,125 for direct benefits to donors)	487,928		487,928		487,928	483,712
In-kind donations (Note 2i)	5,000		5,000		5,000	28,500
Investment income (Notes 2d and 3)	5,955	\$66,035	71,990		71,990	329,171
Program income	14,000		14,000		14,000	12,397
Net assets released from restrictions (Note 8)	179,975		179,975	(179,975)	0	0
Total public support and revenue	9,125,620	66,035	9,191,655	40,025	9,231,680	3,102,424
Expenses:						
Program services	5,132,449		5,132,449		5,132,449	6,325,552
Management and general	451,344		451,344		451,344	679,028
Fundraising	681,497		681,497		681,497	1,015,478
Total expenses	6,265,290	0	6,265,290	0	6,265,290	8,020,058
Change in net assets	2,860,330	66,035	2,926,365	40,025	2,966,390	(4,917,634)
Net assets - beginning of year	2,590,545	3,103,445	5,693,990	329,975	6,023,965	10,941,599
Net assets - end of year	\$5,450,875	\$3,169,480	\$8,620,355	\$370,000	\$8,990,355	\$6,023,965

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, 2013
(With comparative totals for the year ended December 31, 2012)

	Program Services	Management and General	Fundraising	Total Expenses 12/31/13	Total Expenses 12/31/12
Salaries	\$3,099,920	\$285,958	\$288,084	\$3,673,962	\$3,966,456
Employee benefits and taxes	567,987	52,395	52,785	673,167	964,042
 Total salaries and related expenses	 3,667,907	 338,353	 340,869	 4,347,129	 4,930,498
Professional fees	3,414	19,277	187,938	210,629	151,488
Litigation costs	273,482			273,482	1,314,157
Research and legal library	58,012	424	1,453	59,889	53,001
Donated services (Note 2i)		5,000		5,000	11,000
Events			62,922	62,922	221,202
Travel	422,569		4,148	426,717	333,898
Occupancy	367,030	29,759	29,759	426,548	424,845
Computer support and maintenance	116,694	8,473	17,527	142,694	148,085
Office supplies	150,936	12,581	26,253	189,770	231,814
Bad debt expense		1,500		1,500	65,800
Insurance	11,716	6,968		18,684	19,204
Training	4,748		102	4,850	9,640
Licenses and fees	11,265	25,387	6,904	43,556	39,113
Interest expense (Note 6)				0	17,500
 Total expenses before depreciation and amortization	 5,087,773	 447,722	 677,875	 6,213,370	 7,971,245
Depreciation and amortization	44,676	3,622	3,622	51,920	48,813
 Total expenses	 \$5,132,449	 \$451,344	 \$681,497	 \$6,265,290	 \$8,020,058

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, 2013
(With comparative totals for the year ended December 31, 2012)

	<u>12/31/13</u>	<u>12/31/12</u>
Cash flows from operating activities:		
Change in net assets	\$2,966,390	(\$4,917,634)
Adjustments to reconcile change in net assets to net cash provided by/(used for) operating activities:		
Depreciation and amortization	51,920	48,813
Net realized gain on investments	(23,195)	(28,291)
Unrealized loss/(gain) on investments	68,054	(140,958)
(Increase)/decrease in assets:		
Attorneys' fees receivable	(130,771)	676,404
Contributions receivable	3,488	76,589
Prepaid expenses and other current assets	4,730	(3,241)
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	(339,128)	340,877
Deferred rent	(46,144)	(37,243)
Total adjustments	<u>(411,046)</u>	<u>932,950</u>
Net cash provided by/(used for) operating activities	<u>2,555,344</u>	<u>(3,984,684)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(39,036)	(4,054)
Purchases of investments	(3,665,353)	(4,911,250)
Proceeds from sales of investments	3,726,078	4,540,439
Net cash provided by/(used for) investing activities	<u>21,689</u>	<u>(374,865)</u>
Cash flows from financing activities:		
Forgiveness of loan	(350,000)	0
Net cash used for financing activities	<u>(350,000)</u>	<u>0</u>
Net increase/(decrease) in cash and cash equivalents	2,227,033	(4,359,549)
Cash and cash equivalents - beginning of year	<u>1,870,589</u>	<u>6,230,138</u>
Cash and cash equivalents - end of year	<u>\$4,097,622</u>	<u>\$1,870,589</u>
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, 2013

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 recording revenue and expenses when earned or incurred rather than when received or paid. All significant receivables, payables, and other liabilities have been recorded.

b. Basis of Presentation

The Organization reports information regarding its financial position and activity according to the following classes of net assets:

- *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 uses 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. When the restrictions from temporarily restricted contributions have been met in the year of donation, they are reported as unrestricted.

c. Cash and Cash Equivalents

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

d. Investments and Investment Income

Investments are recorded at fair value, which refers to 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

Furniture and equipment are recorded at cost or at fair values at the date 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.

Furniture, 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. Based on knowledge of specific donors and factoring in historical experience, management has established a reserve for uncollectable pledges totaling \$31,000 and \$45,000 for 2013 and 2012, respectively.

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 \$5,000 have been recognized during the year. In 2012, \$11,000 of in-kind

legal services and \$17,500 in imputed interest on the loan payable balance were recorded.

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. Such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2012, 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 material, uncertain tax positions. Tax filings for the periods ending December 31, 2010 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 5, 2014, 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 following summarizes the composition of investments:

	<u>December 31, 2013</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Corporate bonds	\$0	\$1,032,917	\$1,032,917
Fixed income funds	2,498,428	0	2,498,428
Equity funds	38,528	0	38,528
Certificates of deposit	<u>0</u>	<u>630,933</u>	<u>630,933</u>
	<u>\$2,536,956</u>	<u>\$1,663,850</u>	<u>\$4,200,806</u>

	<u>December 31, 2012</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Corporate bonds	\$0	\$647,076	\$647,076
Government bond	0	400,155	400,155
Fixed income funds	1,972,088	0	1,972,088
Equity funds	156,234	0	156,234
Certificates of deposit	<u>0</u>	<u>1,130,837</u>	<u>1,130,837</u>
	<u>\$2,128,322</u>	<u>\$2,178,068</u>	<u>\$4,306,390</u>

The following summarizes investment income:

	<u>12/31/13</u>	<u>12/31/12</u>
Interest and dividends income	\$116,849	\$159,922
Realized gain on investments	23,195	28,291
Unrealized (loss) / gain on investments	<u>(68,054)</u>	<u>140,958</u>
	<u>\$71,990</u>	<u>\$329,171</u>

Level 1 securities are valued at the closing price reported on the active market they are traded on. Level 2 securities are valued using observable market inputs for securities that are similar to those owned. This method produces a fair value calculation that may not be indicative of net realizable value or reflective of future values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements.

Note 4 - Contributions Receivable

Contributions receivable are due as follows:

Year ending: December 31, 2014	\$255,831
December 31, 2015	50,000
December 31, 2016	<u>50,000</u>
	\$355,831
Less: allowance for doubtful accounts	(31,000)
Less: adjustment to fair value	<u>(1,000)</u>
Total	<u>\$323,831</u>

Note 5 - Property and Equipment

Fixed assets consist of:

	<u>12/31/13</u>	<u>12/31/12</u>
Furniture and equipment	\$390,645	\$354,145
Leasehold improvements	<u>501,211</u>	<u>498,675</u>
	891,856	852,820
Less: accumulated depreciation and amortization	<u>(752,277)</u>	<u>(700,357)</u>
Net fixed assets	<u>\$139,579</u>	<u>\$152,463</u>

Note 6 - Loan Payable

On August 25, 2011, the Organization received an interest free loan from a foundation for \$350,000. The original terms of the promissory note required the Organization to repay this loan in full by August 25, 2014; however, the full amount was forgiven during the year ended December 31, 2013 and has been included as a contribution in the statement of activities.

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, 2014	\$374,697
December 31, 2015	383,987
December 31, 2016	<u>161,624</u>
Total	<u>\$920,308</u>

Note 8 - Temporarily Restricted Net Assets

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

	<u>December 31, 2013</u>			<u>Balance 12/31/13</u>
	<u>Balance 1/1/13</u>	<u>Contributions</u>	<u>Released from Restrictions</u>	
Program restriction:				
Reform efforts in TN, GA, & MS	\$25,000	\$0	(\$25,000)	\$0
Texas Foster Care Litigation				
Capacity Building	0	75,000	0	75,000
Chief operating officer	<u>84,975</u>	<u>0</u>	<u>(84,975)</u>	<u>0</u>
Total program restriction	109,975	75,000	(109,975)	75,000
Time restrictions	<u>220,000</u>	<u>145,000</u>	<u>(70,000)</u>	<u>295,000</u>
Total	<u>\$329,975</u>	<u>\$220,000</u>	<u>(\$179,975)</u>	<u>\$370,000</u>

	<u>December 31, 2012</u>			<u>Balance 12/31/12</u>
	<u>Balance 1/1/12</u>	<u>Contributions</u>	<u>Released from Restrictions</u>	
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	<u>100,000</u>	<u>84,975</u>	<u>(100,000)</u>	<u>84,975</u>
Total program restriction	297,197	109,975	(297,197)	109,975
Time restrictions	<u>250,000</u>	<u>120,000</u>	<u>(150,000)</u>	<u>220,000</u>
Total	<u>\$547,197</u>	<u>\$229,975</u>	<u>(\$447,197)</u>	<u>\$329,975</u>

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. There were no discretionary contributions made to the plan in 2013. In 2012, this amount was 6% of salary. 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 were \$0 and \$208,316 in 2013 and 2012, respectively.

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. Accounts are insured by the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation. Investments are subject to market value fluctuations and principal is not guaranteed. However, management believes the investment policy is prudent for the long term welfare of the Organization. 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.