



Audited Financial Statements

December 31, 2015

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, 2015, 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 Organization'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 Organization'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.

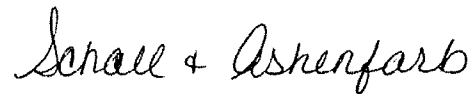
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015, 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 2014 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated June 1, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Schall & Ashenfarb
Certified Public Accountants, LLC

June 7, 2016

CHILDREN'S RIGHTS, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015
(With comparative totals as of December 31, 2014)

	<u>12/31/15</u>	<u>12/31/14</u>
Assets		
Cash and cash equivalents	\$1,935,966	\$2,119,111
Investments (Note 3)	3,085,926	4,688,559
Attorneys' fees receivable	325,992	571,013
Contributions receivable, net of allowance	397,251	350,619
Prepaid expenses and other current assets	111,448	24,267
Fixed assets, net (Note 4)	38,311	82,770
Security deposit (Note 5)	100,000	100,000
	<u> </u>	<u> </u>
Total assets	<u><u>\$5,994,894</u></u>	<u><u>\$7,936,339</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$486,563	\$487,369
Deferred rent	9,623	74,242
Total liabilities	<u>496,186</u>	<u>561,611</u>
Commitments (Note 5)		
Net assets:		
Unrestricted		
Undesignated	1,729,781	3,474,499
Board designated reserve fund	3,493,238	3,530,229
Total unrestricted	<u>5,223,019</u>	<u>7,004,728</u>
Temporarily restricted (Note 6)	275,689	370,000
Total net assets	<u>5,498,708</u>	<u>7,374,728</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u><u>\$5,994,894</u></u>	<u><u>\$7,936,339</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, 2015

(With comparative totals for the year ended December 31, 2014)

	Unrestricted				Temporarily Restricted	Total 12/31/15	Total 12/31/14
	Undesignated	Designated Reserve Fund	Total	Board			
Public support and revenue:							
Attorneys' fees income	\$710,940		\$710,940		\$710,940	\$2,333,454	
Contributions	828,945		828,945	\$215,000	1,043,945	1,073,477	
Special event income (net of direct benefits to donors)	925,870		925,870		925,870	639,687	
Rental income and other income	38,403		38,403		38,403	250	
In-kind donations	37,000		37,000		37,000	53,500	
Investment income (Note 3)	5,539	(\$36,991)	(31,452)		(31,452)	22,415	
Net assets released from restrictions (Note 6)	309,311		309,311	(309,311)	0	0	
Total public support and revenue	2,856,008	(36,991)	2,819,017	(94,311)	2,724,706	4,122,783	
Expenses:							
Program services	3,447,079		3,447,079		3,447,079	4,585,964	
Management and general Fundraising	680,835		680,835		680,835	496,706	
	472,812		472,812		472,812	655,740	
Total expenses	4,600,726	0	4,600,726	0	4,600,726	5,738,410	
Change in net assets	(1,744,718)	(36,991)	(1,781,709)	(94,311)	(1,876,020)	(1,615,627)	
Net assets - beginning of year	3,474,499	3,530,229	7,004,728	370,000	7,374,728	8,990,355	
Net assets - end of year	\$1,729,781	\$3,493,238	\$5,223,019	\$275,689	\$5,498,708	\$7,374,728	

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, 2015

(With comparative totals for the year ended December 31, 2014)

	Program Services	Management and General	Fundraising	Total Expenses 12/31/15	Total Expenses 12/31/14
Salaries	\$2,024,796	\$268,124	\$168,521	\$2,461,441	\$3,046,944
Employee benefits and taxes	453,311	60,028	37,728	551,067	553,578
 Total salaries and related expenses	 2,478,107	 328,152	 206,249	 3,012,508	 3,600,522
Professional fees (including in-kind)	79,478	198,232	169,013	446,723	351,359
Litigation costs	1,103			1,103	484,300
Research and legal library	66,343			66,343	58,086
Events			40,183	40,183	37,936
Travel	160,855	55	5,545	166,455	351,905
Occupancy	365,037	48,338	30,382	443,757	428,366
Computer support and maintenance	103,325	16,329	7,181	126,835	146,680
Office supplies	120,866	16,902	9,901	147,669	167,417
Bad debt expense		25,500		25,500	0
Insurance	9,938	8,502		18,440	19,165
Training	9,177	69		9,246	0
Licenses and fees	6,370	32,601	490	39,461	35,865
 Total expenses before depreciation and amortization	 3,400,599	 674,680	 468,944	 4,544,223	 5,681,601
Depreciation and amortization	46,480	6,155	3,868	56,503	56,809
 Total expenses	 <u>\$3,447,079</u>	 <u>\$680,835</u>	 <u>\$472,812</u>	 <u>\$4,600,726</u>	 <u>\$5,738,410</u>

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, 2015

(With comparative totals for the year ended December 31, 2014)

	<u>12/31/15</u>	<u>12/31/14</u>
Cash flows from operating activities:		
Change in net assets	(\$1,876,020)	(\$1,615,627)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation and amortization	56,503	56,809
Net realized (gain)/loss on investments	(35,380)	17,736
Unrealized loss on investments	213,241	88,678
Changes in assets and liabilities:		
Attorneys' fees receivable	245,021	162,466
Contributions receivable	(46,632)	(26,788)
Prepaid expenses and other current assets	(87,181)	(2,138)
Accounts payable and accrued expenses	(806)	(10,213)
Deferred rent	(64,619)	(55,267)
Total adjustments	<u>280,147</u>	<u>231,283</u>
Net cash used for operating activities	<u>(1,595,873)</u>	<u>(1,384,344)</u>
Cash flows from investing activities:		
Purchases of fixed assets	(12,044)	0
Purchases of investments	(1,578,033)	(4,984,954)
Proceeds from sales of investments	3,002,805	4,390,787
Net cash provided by/(used for) investing activities	<u>1,412,728</u>	<u>(594,167)</u>
Net decrease in cash and cash equivalents	(183,145)	(1,978,511)
Cash and cash equivalents - beginning of year	<u>2,119,111</u>	<u>4,097,622</u>
Cash and cash equivalents - end of year	<u><u>\$1,935,966</u></u>	<u><u>\$2,119,111</u></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, 2015

Note 1 - Nature of Entity

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 - Summary of Significant Accounting Policies

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.

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 for which the uses 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 value 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 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 \$50,000 and \$31,000 in 2015 and 2014, 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 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 \$37,000 and \$53,500 were recognized during the years ended December 31, 2015

and 2014, respectively.

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, 2014, 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 financial statements. 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, 2012 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 7, 2016, 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 further 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, 2015</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Fixed income funds	\$2,819,643	\$0	\$2,819,643
Equity funds	61,139	0	61,139
Certificates of deposit	<u>0</u>	<u>205,144</u>	<u>205,144</u>
	<u>\$2,880,782</u>	<u>\$205,144</u>	<u>\$3,085,926</u>

	<u>December 31, 2014</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Government bonds	\$0	\$75,223	\$75,223
Fixed income funds	2,888,212	0	2,888,212
Equity funds	147,179	0	147,179
Certificates of deposit	<u>0</u>	<u>1,577,945</u>	<u>1,577,945</u>
	<u>\$3,035,391</u>	<u>\$1,653,168</u>	<u>\$4,688,559</u>

The following summarizes investment (loss)/income:

	<u>12/31/15</u>	<u>12/31/14</u>
Interest and dividends income	\$146,409	\$128,829
Realized gain/ (loss) on investments	35,380	(17,736)
Unrealized loss on investments	<u>(213,241)</u>	<u>(88,678)</u>
	<u>(\$31,452)</u>	<u>\$22,415</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 - Fixed Assets

Fixed assets consist of:

	<u>12/31/15</u>	<u>12/31/14</u>
Furniture and equipment	\$402,689	\$390,645
Leasehold improvements	<u>501,211</u>	<u>501,211</u>
	903,900	891,856
Less: accumulated depreciation and amortization	<u>(865,589)</u>	<u>(809,086)</u>
Net fixed assets	<u>\$38,311</u>	<u>\$82,770</u>

Note 5 - 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.

Subsequent to year-end, the Organization entered into a non-cancelable lease agreement for new office space to replace the existing lease. The new lease expires in 2026. The lease provides a provision for a free fixed rent allowance of \$151,313 for the first three and a half months of the lease.

Future minimum rental payments under both leases are as follows:

Year Ending:	December 31, 2016	\$330,134
	December 31, 2017	505,530
	December 31, 2018	505,530
	December 31, 2019	505,530
	December 31, 2020	505,530
	Thereafter	<u>3,146,457</u>
Total		<u>\$5,498,711</u>

Note 6 - Temporarily Restricted Net Assets

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

	<u>December 31, 2015</u>			
	Balance <u>1/1/15</u>	<u>Contributions</u>	Released from <u>Restrictions</u>	Balance <u>12/31/15</u>
Program restriction:				
South Carolina Litigation	\$150,000	\$95,000	(\$200,000)	\$45,000
401(k) Contributions	100,000	0	(11,029)	88,971
New Computer Equipment	5,000	5,000	5,000)	5,000
Juvenile Justice Program	<u>0</u>	<u>100,000</u>	<u>(28,282)</u>	<u>71,718</u>
Total program restrictions	255,000	200,000	(244,311)	210,689
Time restrictions	<u>115,000</u>	<u>15,000</u>	<u>(65,000)</u>	<u>65,000</u>
Total	<u>\$370,000</u>	<u>\$215,000</u>	<u>(\$309,311)</u>	<u>\$275,689</u>

	<u>December 31, 2014</u>			
	Balance <u>1/1/14</u>	<u>Contributions</u>	Released from <u>Restrictions</u>	Balance <u>12/31/14</u>
Program restriction:				
Texas Foster Care Litigation				
Capacity Building	\$75,000	\$0	(\$75,000)	\$0
South Carolina Litigation	0	200,000	(50,000)	150,000
401(k) Contributions	0	100,000	0	100,000
New Computer Equipment	<u>0</u>	<u>5,000</u>	<u>0</u>	<u>5,000</u>
Total program restrictions	75,000	305,000	(125,000)	255,000
Time restrictions	<u>295,000</u>	<u>15,000</u>	<u>(195,000)</u>	<u>115,000</u>
Total	<u>\$370,000</u>	<u>\$320,000</u>	<u>(\$320,000)</u>	<u>\$370,000</u>

Note 7 - Pension Plan

Employees that have six months of service are eligible to participate in an employer sponsored defined-contribution 401(k) pension plan. Effective January 1, 2015, the plan instituted a safe harbor match feature where the Organization will now match 100% of the first 3% contributed by the employee and 50% on the next 2% contributed. Mandatory employer contributions to the plan amounted to \$90,000 in 2015. No contributions were made in 2014.

Note 8 - 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.