SCHALL & ASHENFARB Certified Public Accountants, LLC

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CHILDREN'S RIGHTS

PROTECTING KIDS.
PROVIDING HOPE.

Audited Financial Statements

December 31, 2020

307 Fifth Avenue, 15th Floor
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INDEPENDENT AUDITOR'S REPORT

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

Report on the 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, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related 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 financial position of Children's Rights, Inc. as of December 31, 2020, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2019 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated August 26, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019 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

May 25, 2021

CHILDREN'S RIGHTS, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020
(With comparative totals as of December 31, 2019)

	12/31/20	12/31/19
Assets		
Cash and cash equivalents	$2,548,880	$2,345,722
Investments (Note 3)	2,279	2,530
Attorneys' fees receivable	27,471	13,215
Contributions receivable, net (Note 4)	475,519	425,485
Prepaid expenses and other current assets	99,537	110,551
Fixed assets, net (Note 5)	155,210	207,978
Security deposit (Note 6)	168,510	168,510
Total assets	$3,477,406	$3,273,991
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$688,685	$592,819
Deferred rent	182,877	173,002
Loans payable (Note 7)	2,200,000	1,800,000
Total liabilities	3,071,562	2,565,821
Net assets:		
Without donor restrictions	(1,258,165)	318,321
With donor restrictions (Note 8)	1,664,009	389,849
Total net assets	405,844	708,170
Total liabilities and net assets	$3,477,406	$3,273,991

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

CHILDREN'S RIGHTS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020
(With comparative totals for the year ended December 31, 2019)

	Without Donor Restrictions	With Donor Restrictions	Total 12/31/20	Total 12/31/19
Public support and revenue:				
Attorneys' fees income	$769,351		$769,351	$1,321,562
Contributions	1,115,997	$2,132,990	3,248,987	1,266,242
Government grant - Paycheck Protection Program (Note 9)	739,700		739,700	0
Special events income (net of expenses with a direct benefit to donors) (Note 13)	1,157,618		1,157,618	1,525,451
Other income	1,194		1,194	8,680
In-kind donations	6,000		6,000	11,800
Investment income (Note 3)	8,470		8,470	27,145
Net assets released from restrictions (Note 8)	858,830	(858,830)	0	0
Total public support and revenue	4,657,160	1,274,160	5,931,320	4,160,880
Expenses:				
Program services:	4,342,266		4,342,266	4,293,625
Management and general	761,073		761,073	521,071
Fundraising	1,130,307		1,130,307	948,438
Total expenses	6,233,646	0	6,233,646	5,763,134
Change in net assets	(1,576,486)	1,274,160	(302,326)	(1,602,254)
Net assets - beginning of year	318,321	389,849	708,170	2,310,424
Net assets - end of year	($1,258,165)	$1,664,009	$405,844	$708,170

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

CHILDREN'S RIGHTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020
(With comparative totals for the year ended December 31, 2019)

	Program Services	Management and General	Fundraising	Total Expenses 12/31/20	Total Expenses 12/31/19
Salaries	$2,690,219	$402,562	$420,826	$3,513,607	$3,114,091
Employee benefits and taxes	651,308	97,461	101,883	850,652	748,065
Total salaries and related expenses	3,341,527	500,023	522,709	4,364,259	3,862,156
Professional fees	123,760	125,730	196,900	446,390	313,288
Litigation costs	155,291			155,291	181,426
Research and legal library	78,213	256	23	78,492	76,320
Events			274,082	274,082	353,277
Travel	33,392	432	1,290	35,114	246,978
Occupancy	422,407	62,895	62,895	548,197	542,073
Computer support and maintenance	78,611	17,102	31,799	127,512	111,160
Office supplies	44,077	9,073	20,713	73,863	134,249
Bad debt expense				0	500
Insurance	10,774	12,538		23,312	21,080
Training	2,234		537	2,771	13,010
Licenses and fees	5,994	12,359	12,996	31,349	40,297
Interest		12,981		12,981	19,097
Depreciation	45,986	7,684	6,363	60,033	53,027
Total expenses	4,342,266	761,073	1,130,307	6,233,646	5,967,938
Less: direct special event expenses netted with revenue				0	(204,804)
Total expenses for statement of activities	$4,342,266	$761,073	$1,130,307	$6,233,646	$5,763,134

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

CHILDREN'S RIGHTS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
(With comparative totals for the year ended December 31, 2019)

	12/31/20	12/31/19
Cash flows from operating activities:		
Change in net assets	($302,326)	($1,602,254)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	60,033	53,027
Net realized and unrealized (gain)/loss on investments	(243)	318
Changes in assets and liabilities:		
Attorneys' fees receivable	(14,256)	182,778
Contributions receivable	(50,034)	83,749
Prepaid expenses and other current assets	11,014	(44,998)
Accounts payable and accrued expenses	95,866	(37,284)
Deferred rent	9,875	9,875
Total adjustments	112,255	247,465
Net cash used for operating activities	(190,071)	(1,354,789)
Cash flows from investing activities:		
Purchases of fixed assets	(7,265)	(87,395)
Proceeds from sales of investments	494	2,752
Net cash used for investing activities	(6,771)	(84,643)
Cash flows from financing activities:		
Proceeds from loan payable	500,000	1,800,000
Payment of loan payable	(100,000)	0
Net cash provided by financing activities	400,000	1,800,000
Net increase in cash and cash equivalents	203,158	360,568
Cash and cash equivalents - beginning of year	2,345,722	1,985,154
Cash and cash equivalents - end of year	$2,548,880	$2,345,722
Supplemental disclosure of cash flow information:		
Interest and taxes paid	$0	$0

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

Note 1 - Nature of Entity

Children's Rights, Inc. (the "Organization") is a national advocacy group that holds governments accountable for keeping kids safe and healthy in child welfare, juvenile justice, education, and healthcare systems. Children's Rights, Inc. is a not-for-profit corporation founded in 1994 and has been notified by the Internal Revenue Service that they are exempt from Federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and from state and local taxes under comparable laws. The Organization has not been determined to be a private foundation as defined in Section 509(a).

Note 2 - Summary of Significant Accounting Policies

a. <u>Basis of Accounting</u>
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 received or paid.

b. <u>Basis of Presentation</u>
The Organization reports information regarding its financial position and activity according to the following classes of net assets:

- *Net Assets Without Donor Restrictions* – represents those resources for which there are no restrictions by donors as to their use.

- *Net Assets With Donor Restrictions* – represents those resources, the uses of which have been restricted by donors to specific purposes or the passage of time and/or must remain intact, in perpetuity. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor.

c. <u>Revenue Recognition</u>
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 projects that the Organization will be the recipient of legal awards in the future, but the precise amounts and timing of the awards is uncertain.

Accordingly, the Organization follows ASC 450-30, *Gain Contingencies,* under which the accounting treatment is to accrue an award only when, in its judgment, the amount appears certain of collection.

The Organization follows the requirements of the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") 2018-08 ("Topic 605") for recording contributions. Contributions are recognized at the earlier of when cash is received or at the time a pledge becomes unconditional in nature.

Contributions are recorded in the net asset classes referred to above depending on the existence and/or nature of any donor-imposed restriction. When a restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. If donor restricted contributions are satisfied in the same period they were received, they are classified as without donor restrictions.

Contributions may be subject to conditions which are defined under ASU No. 2018-08 as both a barrier to entitlement and a right of return of payments or release from obligations and are recognized as income once the conditions have been substantially met.

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 that totaled $57,500 for both years ended December 31, 2020 and 2019.

d. 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.

e. 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 fair value on the date of the gift. Realized and unrealized gains and losses are included in income on the statement of activities.

f. Fixed Assets

Furniture and equipment purchases that exceed predetermined amounts 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 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.

g. Deferred Rent

Rent expense is recognized evenly over the life of the lease using the straight-line method. 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.

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 2019, the Organization received donated office space for 3 attorneys based out of Atlanta, Georgia, totaling $11,800 and in 2020 received donated office space for 3 attorneys for half of the year totaling $6,000.

h. 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, 2019, from which the summarized information was derived.

i. Functional Allocation of Expenses
The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The following costs are allocated based on time and effort:

- Salaries
- Employee benefits and taxes
- Insurance

The following costs are allocated based on the number of people at the New York office:

- Occupancy
- Computer support and maintenance
- Office supplies
- Depreciation

All other expenses have been charged directly to the applicable program or supporting services.

j. 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.

k. 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, 2017 and later are subject to examination by applicable taxing authorities.

l. New Accounting Pronouncements

FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which becomes effective for the December 31, 2022 year with early adoption permitted. This ASU focuses on improving transparency in the reporting of contributed nonfinancial assets and requires a separate line-item presentation on the statement of activities and additional disclosures.

Additionally, FASB issued ASU No. 2016-02, *Leases*. The ASU which becomes effective for the December 31, 2022 year, requires the full obligation of long-term leases to be recorded as a liability with a corresponding "right to use asset" on the statement of financial position.

The Organization is in the process of evaluating the impact these standards will have on future financial statements.

Note 3 - Investments

Accounting standards have established a fair value hierarchy that gives 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:

	December 31, 2020		
	Level 1	Level 2	Total
Certificates of deposit	$0	$2,279	$2,279

	December 31, 2019		
	Level 1	Level 2	Total
Certificates of deposit	$0	$2,530	$2,530

The following summarizes investment income:

	12/31/20	12/31/19
Interest and dividends income	$8,227	$27,463
Realized and Unrealized gain/(loss) on investments	243	(318)
	$8,470	$27,145

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 in the following periods:

Year ending:	December 31, 2021	$436,048
	December 31, 2022	83,950
	December 31, 2023	15,000
		534,998
Less: present value discount (1%)		(1,979)
Less: allowance for doubtful accounts		(57,500)
Contributions receivable, net		$475,519

Note 5 - Fixed Assets

Fixed assets consist of:

	12/31/20	12/31/19
Furniture and equipment	$311,766	$304,501
Leasehold improvements	104,539	104,539
	416,305	409,040
Less: accumulated depreciation	(261,095)	(201,062)
Total fixed assets, net	$155,210	$207,978

Note 6 - Commitments

a) The Organization has a non-cancelable lease agreement for office space which expires in 2026. 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 $168,510 for this purpose. 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 the lease are as follows:

Year ending:	December 31, 2021	$531,743
	December 31, 2022	550,466
	December 31, 2023	550,466
	December 31, 2024	550,466
	December 31, 2025	550,466
	Thereafter	412,850
Total		$3,146,457

b) During 2019, 2017 and 2016, the Organization received grants for $20,000, $15,000, and $10,000, respectively, to be used for expert witness fees. Should the Organization receive recovery of these fees, it will be required to reimburse the grantee, plus interest at an annual rate of 7%.

As the Organization cannot currently determine the probability of a recovery, no liability has been reflected as of December 31, 2020 and 2019.

Note 7 - Loans Payable

The Organization received several loans that are payable upon the settlement of a court case. Interest is payable in various amounts between 2% and 5% per annum. Three of these loans, totaling $1,400,000 were from related parties through common board members and were approved in accordance with the Organization's conflict of interest policy.

As of December 31, 2020, loans payable consists of the following:

Loan Payable – Greater Houston Community Foundation	$500,000
Loan Payable – Open Road Alliance	400,000
Loan Payable – Open Road Alliance	400,000
Loan Payable – Greater Houston Community Foundation	400,000
Loan Payable – The James Stanton Foundation	500,000
Total	$2,200,000

Subsequent to year-end, the Organization received an attorney's fee award as part of a settlement of one of its legal cases, in the amount of $5,400,000. These funds were used to pay off all the loans outlined above.

Note 8 - Net Assets with Donor Restrictions

The following schedule summarizes the activity of net assets with donor restrictions:

	December 31, 2020			
	Balance 1/1/20	Contributions	Released from Restrictions	Balance 12/31/20
Program restrictions:				
Case Campaigns	$334,849	$1,740,000	($627,832)	$1,447,017
401(K) matching	0	92,990	(45,998)	46,992
Total program	334,849	1,832,990	(673,830)	1,494,009
Time restrictions	55,000	300,000	(185,000)	170,000
Total	$389,849	$2,132,990	($858,830)	$1,664,009

	December 31, 2019			
	Balance 1/1/19	Contributions	Released from Restrictions	Balance 12/31/19
Program restrictions:				
Case Campaigns	$326,948	$315,000	($307,099)	$334,849
Time restrictions	90,000	0	(35,000)	55,000
Total	$416,948	$315,000	($342,099)	$389,849

Note 9 - Paycheck Protection Program

During the year ended December 31, 2020, the Organization obtained a loan from the SBA through the Paycheck Protection Program. Terms of the loan indicated that if certain conditions were met, which included maintaining average work forces during periods subsequent to receipt of the loan funds that are not less than pre-determined historical periods, that the loan, or a portion thereof, could be forgiven.

The Organization accounts for the PPP loan as a conditional contribution in accordance with Topic 605. On November 12, 2020, full forgiveness was approved by the SBA, and this was recognized as revenue as all conditions had been met.

Subsequent to year end, on February 22, 2021, the Organization received a second PPP loan in the amount of $657,900. The loan forgiveness amount has not been determined as of the date of these financial statements.

Note 10 - Availability and Liquidity

Financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Financial assets at year-end:		
Cash and cash equivalents	$2,548,880	
Investments	2,279	
Attorney's fees receivable	27,471	
Contributions receivable	475,519	
Total financial assets		$3,054,149
Less amounts not available for general expenditures:		
Donor restricted contributions – purpose restrictions		(1,494,009)
Financial assets available to meet cash needs for general expenditures within one year		$1,560,140

Earned revenue in the form of Attorneys' fee awards represents a substantial portion of the Organization's overall revenue. These awards are concentrated and unpredictable as to timing. To manage cash needs over the long-term, the Organization maintains a reserve policy that requires deposits into a fund when gross revenues exceed certain thresholds. The Organization has typically relied on a reserve fund to meet cash needs and in 2020 accessed program-related investment credit lines from donors.

As indicated in Note 7, subsequent to year-end, the Organization received an attorney's fee award, as part of a settlement of one of its legal cases, in the amount of $5,400,000. These funds were used to pay off the $2,200,000 in outstanding loans payable at December 31, 2020.

Note 11 - Pension Plan

Employees that have at least 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 matches 100% of the first 3% contributed by the employee and 50% on the next 2% contributed. Employer contributions to the plan amounted to $102,000 and $91,000 for the years ended December 31, 2020 and 2019, respectively.

Note 12 - 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.

Note 13 - Special Events

A summary of the annual benefit, which was held as a virtual event for 2020, is as follows:

	12/31/20	12/31/19
Event income	$1,157,618	$1,730,255
Less: expenses with a direct benefit to donor	0	(204,804)
	1,157,618	1,525,451
Less: other event expenses	(274,082)	(148,473)
Total	$883,536	$1,376,978

Note 14 - Other Matters

On January 30, 2020, the World Health Organization declared a novel coronavirus (COVID-19) outbreak a “Public Health Emergency of International Concern,” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus, and actions taken to mitigate it, have had, and are expected to continue to have, an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. It is unknown how long these conditions will last and what the complete financial effect will be. Management continues to monitor the outbreak; however, as of the date of these financial statements, the potential impact cannot be quantified.

Note 15 - Subsequent Events

Management has evaluated the impact of all subsequent events through May 25, 2021, which is the date that the financial statements were available to be issued. All events that 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 have been made.