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# **CHILDREN'S RIGHTS, INC.**

## **Audited Financial Statements**

**December 31, 2010**

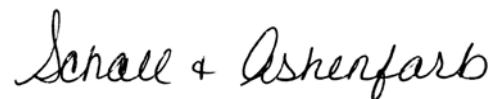
## **REPORT OF INDEPENDENT AUDITORS**

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

We have audited the accompanying statement of financial position of Children's Rights, Inc. (the "Organization") as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's December 31, 2009 financial statements and, in our report dated May 25, 2010 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Rights, Inc. as of December 31, 2010, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Schall & Ashenfarb  
Certified Public Accountants, LLC

May 24, 2011

**CHILDREN'S RIGHTS, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2010**  
(With comparative totals for December 31, 2009)

	<u>12/31/10</u>	<u>12/31/09</u>
<b>Assets</b>		
Cash and cash equivalents (Notes 2c and 9)	\$12,213,237	\$4,114,651
Investments (Notes 2d and 3)	1,188,290	4,113,271
Attorneys' fees receivable (Note 2g)	595,381	6,614,353
Contributions receivable (Notes 2h and 4)	477,792	340,893
Prepaid expenses and other current assets	13,839	16,641
Property and equipment, net (Notes 2e and 5)	157,463	182,135
Security deposit (Note 6)	100,000	100,000
	<u>                    </u>	<u>                    </u>
Total assets	<u><u>\$14,746,002</u></u>	<u><u>\$15,481,944</u></u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$412,246	\$383,160
Deferred rent (Note 2f)	237,915	233,815
Total liabilities	<u>650,161</u>	<u>616,975</u>
Commitments (Note 6)		
Net assets:		
Unrestricted (Note 2b)		
Undesignated	11,460,075	12,766,183
Board designated reserve fund	1,749,909	1,723,958
Total unrestricted	<u>13,209,984</u>	<u>14,490,141</u>
Temporarily restricted (Notes 2b and 7)	885,857	374,828
Total net assets	<u>14,095,841</u>	<u>14,864,969</u>
	<u>                    </u>	<u>                    </u>
Total liabilities and net assets	<u><u>\$14,746,002</u></u>	<u><u>\$15,481,944</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, 2010**  
(With comparative totals for the year ended December 31, 2009)

	Unrestricted			Temporarily Restricted	Total 12/31/10	Total 12/31/09
	Board		Total			
	Undesignated	Designated Reserve Fund				
Public support and revenue:						
Attorneys' fees income (Note 2g)	\$2,267,663		\$2,267,663		\$2,267,663	\$7,167,494
Contributions (Note 2h)	1,185,958		1,185,958	\$926,883	2,112,841	989,735
Special event income (net of costs of \$74,007 for direct benefits to donors)	404,550		404,550		404,550	367,269
In-kind donations (Note 2i)	35,079		35,079		35,079	21,234
Investment income (Notes 2d and 3)	76,633	\$25,951	102,584		102,584	140,250
Program income	17,377		17,377		17,377	14,393
Net assets released from restrictions (Note 7)	415,854		415,854	(415,854)	0	0
<b>Total public support and revenue</b>	<b>4,403,114</b>	<b>25,951</b>	<b>4,429,065</b>	<b>511,029</b>	<b>4,940,094</b>	<b>8,700,375</b>
Expenses:						
Program services	4,163,778		4,163,778		4,163,778	3,702,930
Management and general	488,561		488,561		488,561	375,438
Fundraising	1,056,883		1,056,883		1,056,883	647,400
<b>Total expenses</b>	<b>5,709,222</b>	<b>0</b>	<b>5,709,222</b>	<b>0</b>	<b>5,709,222</b>	<b>4,725,768</b>
Change in net assets	(1,306,108)	25,951	(1,280,157)	511,029	(769,128)	3,974,607
Net assets - beginning of year	12,766,183	1,723,958	14,490,141	374,828	14,864,969	10,890,362
Net assets - end of year	<u>\$11,460,075</u>	<u>\$1,749,909</u>	<u>\$13,209,984</u>	<u>\$885,857</u>	<u>\$14,095,841</u>	<u>\$14,864,969</u>

*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, 2010**  
(With comparative totals for the year ended December 31, 2009)

	Program Services	Management and General	Fundraising	Total Expenses 12/31/10	Total Expenses 12/31/09 *
Salaries	\$2,389,246	\$261,079	\$524,682	\$3,175,007	\$2,663,546
Employee benefits and taxes	579,147	63,283	127,182	769,612	662,871
Total salaries and related expenses	2,968,393	324,362	651,864	3,944,619	3,326,417
Professional fees	7,700	40,496	49,005	97,201	143,914
Litigation costs	288,022			288,022	16,913
Research and legal library	42,362		1,327	43,689	34,899
Donated services		35,079		35,079	21,234
Events			123,233	123,233	104,865
Travel	283,350	3,065	4,482	290,897	277,492
Occupancy	311,244	31,743	63,793	406,780	409,506
Computer support and maintenance	68,609	7,391	20,369	96,369	103,645
Printing and design	11,904	269	74,971	87,144	53,912
Office supplies and expense	135,427	20,036	53,560	209,023	148,695
Insurance	8,715	6,593		15,308	14,152
Training	700	653	2,495	3,848	3,505
Licenses and fees	8,342	15,703	5,414	29,459	30,270
Total expenses before depreciation	4,134,768	485,390	1,050,513	5,670,671	4,689,419
Depreciation and amortization	29,010	3,171	6,370	38,551	36,349
Total expenses	<u>\$4,163,778</u>	<u>\$488,561</u>	<u>\$1,056,883</u>	<u>\$5,709,222</u>	<u>\$4,725,768</u>

\* Reclassified to conform to the 2010 presentation.

*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, 2010**  
(With comparative totals for the year ended December 31, 2009)

	<u>12/31/10</u>	<u>12/31/09</u>
Cash flows from operating activities:		
Change in net assets	(\$769,128)	\$3,974,607
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	38,551	36,349
Net realized and unrealized gain on investments	(40,412)	(68,873)
(Increase)/decrease in assets:		
Attorneys' fees receivable	6,018,972	(916,933)
Contributions receivable	(136,899)	(281,003)
Prepaid expenses and other current assets	2,802	14,822
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	29,086	(22,942)
Conditional contributions	0	(57,077)
Deferred rent	4,100	63,648
Total adjustments	<u>5,916,200</u>	<u>(1,232,009)</u>
Net cash flows provided by operating activities	<u>5,147,072</u>	<u>2,742,598</u>
Cash flows from investing activities:		
Purchases of property and equipment	(13,879)	(2,561)
Purchases of investments	(193,231)	(2,995,779)
Proceeds from sales of investments	3,158,624	67,010
Net cash flows provided by/(used for) investing activities	<u>2,951,514</u>	<u>(2,931,330)</u>
Net increase/(decrease) in cash and cash equivalents	8,098,586	(188,732)
Cash and cash equivalents - beginning of year	4,114,651	4,303,383
Cash and cash equivalents - end of year	<u>\$12,213,237</u>	<u>\$4,114,651</u>
Supplemental disclosure of cash flow information:		
Noncash donation of services - \$35,079		
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, 2010**

**Note 1 - Summary of Significant Accounting Policies**

Children's Rights, Inc. (the "Organization") is a not-for-profit corporation founded in 1994 to advocate for the rights of children in the custody of government agencies. The Organization is exempt from Federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and from state and local taxes under comparable laws.

**Note 2 - Financial Reporting**

a. Basis of Accounting

The accompanying financial statements of the Organization have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

b. 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 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 statements of cash flows.

d. Investments and Investment Income

Investments in marketable securities with readily available prices are carried at fair market value. 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. Property and Equipment

Property and equipment are stated at their costs or at their fair market values at the dates of donation. Furniture and office equipment are depreciated using the straight-line method over the estimated useful lives of three to seven years.

Leasehold improvements are amortized using the straight-line method over the remaining life of the lease.

f. Deferred Rent

Rent expense is recorded on the straight-line basis over the life of the lease. Rent expense recognized in excess of cash payments, primarily due to free rent received at the beginning of the lease, is reflected as deferred rent.

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

h. Contributions

The Organization reports contributions 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 expected to be received within one year are recorded at their net realizable value. Long-term pledges are recorded at fair value, using a risk adjusted discount rate.

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 \$35,079 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, 2009, from which the summarized information was derived.



k. Functional Allocation of Expenses/Management Estimates

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.

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.

l. Accounting for Uncertainty of Income Taxes

The Organization has adopted the provisions of FASB ASC 740, *Income Taxes*, which applies to positions taken or expected to be taken in a tax return. Organizations are required to recognize the effects of tax positions if they are more likely than not of being sustained. The Organization does not believe its financial statements include any uncertain tax positions.

m. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through May 24, 2011, 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**

Investments are carried at fair value. FASB Accounting Standards Codification (ASC) 820 establishes a fair value hierarchy giving the highest priority to quoted market prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are 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:

	<u>Level 1</u>	<u>Level 2</u>	Total <u>12/31/10</u>	Total <u>12/31/09</u>
Corporate bonds	\$0	\$599,135	\$599,135	\$587,536
Fixed income funds	56,220	0	56,220	100,045
Equity funds	532,932	0	532,935	429,911
Treasury bills	0	0	0	2,995,779
	<u>\$589,152</u>	<u>\$599,135</u>	<u>\$1,188,290</u>	<u>\$4,113,271</u>

During the year ended December 31, 2010, investment income consisted of the following:

Interest and dividends income	\$62,172
Realized gain on investments	19,410
Unrealized gain on investments	<u>21,002</u>
	<u>\$102,584</u>

**Note 4 - Contributions Receivable**

At December 31, 2010, the Organization had unconditional contributions receivables of \$477,792, which are due as follows:

Year ended:	December 31, 2011	\$330,792
	December 31, 2012	50,000
	December 31, 2013	50,000
	December 31, 2014	<u>50,000</u>
Total receivable		480,792
Less: discount		<u>(3,000)</u>
Contributions receivable, net		<u>\$477,792</u>

**Note 5 - Property and Equipment**

At December 31, 2010, property and equipment consisted of the following:

Furniture and equipment	\$292,003
Leasehold improvements	<u>471,742</u>
	763,745
Less: accumulated depreciation and amortization	<u>(606,282)</u>
Total	<u>\$157,463</u>

**Note 6 - Commitments**

The Organization has a non-cancelable lease agreement for office space which expires in 2016. Under terms of that lease, the Organization was required to establish an irrevocable standby letter of credit, which represents four months rent. A certificate of deposit account was established in the amount of \$100,000 for this purpose. Future minimum payments, excluding utilities and other escalations, under the lease are as follows:

December 31, 2011	\$346,929
December 31, 2012	359,153
December 31, 2013	368,054
December 31, 2014	377,177
December 31, 2015	386,529
Thereafter	<u>56,568</u>
Total	<u>\$1,894,410</u>

**Note 7 - Temporarily Restricted Net Assets**

As mentioned in Note 2e, donor contributions whose use is restricted by the donor are recorded in the temporarily restricted class of net assets. The following schedule summarizes temporarily restricted net assets:

	Balance <u>1/1/10</u>	Increases	Released from <u>Restrictions</u>	Balance <u>12/31/10</u>
Program restriction:				
Policy projects	\$267,847	\$120,000	(\$220,819)	\$167,028
Jackson attorney	97,584	0	(85,626)	11,958
Staff growth		500,000	0	500,000
Fellowships	<u>9,397</u>	<u>56,883</u>	<u>(59,409)</u>	<u>6,871</u>
Total program restriction	374,828	676,883	(365,854)	685,857
Time restrictions	<u>0</u>	<u>250,000</u>	<u>(50,000)</u>	<u>200,000</u>
Total	<u>\$374,828</u>	<u>\$926,883</u>	<u>(\$415,854)</u>	<u>\$885,857</u>

**Note 8 - Pension Plan**

The Organization sponsors a defined-contribution pension plan. Employees that have one year of service and have worked at least 1,000 hours are eligible to participate. The Organization's contributions are determined annually, on a discretionary basis, which was 6% in 2010. Contributions for certain employees, who have been with the Organization for a specified period of time, are made at an amount that is the greater of a specific formula or the standard discretionary amount. Total contributions for 2010 totaled \$184,701.

**Note 9 - Concentration of Credit Risk**

Financial instruments which potentially subject the Organization to concentration of credit risk consist of cash, money market accounts and investment securities. The Organization places its temporary cash and money market accounts 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 either due to the accounts not being insured or balances exceeding the insured levels. The Organization has not suffered any losses due to the failure of any of these institutions.