

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

## **Audited Financial Statements**

**December 31, 2011**

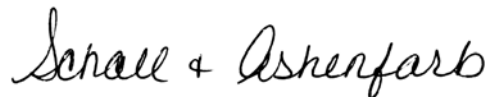
## REPORT OF INDEPENDENT AUDITORS

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, 2011, 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, 2010 financial statements and, in our report dated May 24, 2011 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, 2011, 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  
Schall & Ashenfarb  
Certified Public Accountants, LLC

June 13, 2012

**CHILDREN'S RIGHTS, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2011**  
(With comparative totals for December 31, 2010)

	<u>12/31/11</u>	<u>12/31/10</u>
<b>Assets</b>		
Cash and cash equivalents (Notes 2c and 10)	\$6,230,138	\$12,213,237
Investments (Notes 2d and 3)	3,766,330	1,188,290
Attorneys' fees receivable (Note 2g)	1,279,112	595,381
Contributions receivable (Notes 2h and 4)	403,908	477,792
Prepaid expenses and other current assets	23,618	13,839
Property and equipment, net (Notes 2e and 5)	197,222	157,463
Security deposit (Note 7)	100,000	100,000
	<u>                    </u>	<u>                    </u>
Total assets	<u><u>\$12,000,328</u></u>	<u><u>\$14,746,002</u></u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$495,833	\$412,246
Deferred rent (Note 2f)	212,896	\$237,915
Loan payable (Note 6)	350,000	0
Total liabilities	<u>1,058,729</u>	<u>650,161</u>
Commitments (Note 7)		
Net assets:		
Unrestricted (Note 2b)		
Undesignated	7,607,138	11,460,075
Board designated reserve fund	2,787,264	1,749,909
Total unrestricted	<u>10,394,402</u>	<u>13,209,984</u>
Temporarily restricted (Notes 2b and 8)	547,197	885,857
Total net assets	<u>10,941,599</u>	<u>14,095,841</u>
	<u>                    </u>	<u>                    </u>
Total liabilities and net assets	<u><u>\$12,000,328</u></u>	<u><u>\$14,746,002</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, 2011**  
(With comparative totals for the year ended December 31, 2010)

	Unrestricted			Temporarily Restricted	Total 12/31/11	Total 12/31/10
	Board		Total			
	Undesignated	Designated Reserve Fund				
Public support and revenue:						
Attorneys' fees income (Note 2g)	\$2,374,396		\$2,374,396		\$2,374,396	\$2,267,663
Contributions (Note 2h)	1,240,382		1,240,382	\$278,693	1,519,075	2,112,841
Special event income (net of costs of \$76,750 for direct benefits to donors)	435,032		435,032		435,032	404,550
In-kind donations (Note 2i)	57,000		57,000		57,000	35,079
Investment income (Notes 2d and 3)	11,730	\$76,063	87,793		87,793	102,584
Program income	12,099		12,099		12,099	17,377
Net assets released from restrictions (Note 8)	617,353		617,353	(617,353)	0	0
<b>Total public support and revenue</b>	<b>4,747,992</b>	<b>76,063</b>	<b>4,824,055</b>	<b>(338,660)</b>	<b>4,485,395</b>	<b>4,940,094</b>
Expenses:						
Program services	5,696,970		5,696,970		5,696,970	4,163,778
Management and general	896,981		896,981		896,981	488,561
Fundraising	1,045,686		1,045,686		1,045,686	1,056,883
<b>Total expenses</b>	<b>7,639,637</b>	<b>0</b>	<b>7,639,637</b>	<b>0</b>	<b>7,639,637</b>	<b>5,709,222</b>
Change in net assets	(2,891,645)	76,063	(2,815,582)	(338,660)	(3,154,242)	(769,128)
Net assets - beginning of year	11,460,075	1,749,909	13,209,984	885,857	14,095,841	14,864,969
Reclassification	(178,701)	178,701	0			0
Transfers	(782,591)	782,591	0			0
<b>Net assets - end of year</b>	<b>\$7,607,138</b>	<b>\$2,787,264</b>	<b>\$10,394,402</b>	<b>\$547,197</b>	<b>\$10,941,599</b>	<b>\$14,095,841</b>

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**CHILDREN'S RIGHTS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**  
(With comparative totals for the year ended December 31, 2010)

	Program Services	Management and General	Fundraising	Total Expenses 12/31/11	Total Expenses 12/31/10
Salaries	\$2,882,759	\$445,462	\$520,922	\$3,849,143	\$3,175,007
Employee benefits and taxes	689,129	106,489	124,527	920,145	769,612
 Total salaries and related expenses	 3,571,888	 551,951	 645,449	 4,769,288	 3,944,619
Professional fees	38,726	172,697	55,761	267,184	97,201
Litigation costs	920,981			920,981	288,022
Research and legal library	48,278			48,278	43,689
Donated services	14,000	43,000		57,000	35,079
Events			169,524	169,524	123,233
Travel	425,543	4,743	3,174	433,460	290,897
Occupancy	321,427	49,669	58,083	429,179	406,780
Computer support and maintenance	116,152	13,781	6,231	136,164	96,369
Printing and design	35,850	2,023	68,702	106,575	87,144
Office supplies and expense	146,760	22,678	26,520	195,958	209,023
Insurance	10,198	7,694		17,892	15,308
Training	5,453		2,517	7,970	3,848
Licenses and fees	7,816	23,507	3,599	34,922	29,459
 Total expenses before depreciation	 5,663,072	 891,743	 1,039,560	 7,594,375	 5,670,671
Depreciation and amortization	33,898	5,238	6,126	45,262	38,551
 Total expenses	 <u>\$5,696,970</u>	 <u>\$896,981</u>	 <u>\$1,045,686</u>	 <u>\$7,639,637</u>	 <u>\$5,709,222</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, 2011**  
(With comparative totals for the year ended December 31, 2010)

	<u>12/31/11</u>	<u>12/31/10</u>
Cash flows from operating activities:		
Change in net assets	(\$3,154,242)	(\$769,128)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	45,262	38,551
Net realized and unrealized gain on investments	(1,533)	(40,412)
(Increase)/decrease in assets:		
Attorneys' fees receivable	(683,731)	6,018,972
Contributions receivable	73,884	(136,899)
Prepaid expenses and other current assets	(9,779)	2,802
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	83,587	29,086
Deferred rent	(25,019)	4,100
Total adjustments	<u>(517,329)</u>	<u>5,916,200</u>
Net cash flows (used for)/provided by operating activities	<u>(3,671,571)</u>	<u>5,147,072</u>
Cash flows from investing activities:		
Purchases of property and equipment	(85,021)	(13,879)
Purchases of investments	(2,762,337)	(193,231)
Proceeds from sales of investments	185,830	3,158,624
Net cash flows (used for)/provided by investing activities	<u>(2,661,528)</u>	<u>2,951,514</u>
Cash flows from financing activities:		
Proceeds from loan payable	350,000	0
Net cash flows provided by investing activities	<u>350,000</u>	<u>0</u>
Net (decrease)/increase in cash and cash equivalents	(5,983,099)	8,098,586
Cash and cash equivalents - beginning of year	<u>12,213,237</u>	<u>4,114,651</u>
Cash and cash equivalents - end of year	<u><u>\$6,230,138</u></u>	<u><u>\$12,213,237</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, 2011**

**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 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 the donors as to their use. The Organization has chosen to present its unrestricted net assets in two distinct categories: undesignated and board designated reserve fund.
- *Temporarily restricted* – represent those resources the use of which have been restricted by donors to specific purposes or the passage of time. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor.

c. Cash and Cash Equivalents

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

d. Investments and Investment Income

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

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

h. Contributions

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

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

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

i. In-Kind Donations

The Organization recognizes contributions of services that either create or enhance non-financial assets or require specialized skills that are provided by those possessing those skills and would have been paid if not contributed. In-kind legal services of \$57,000 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, 2010, 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 provision of FASB ASC 740, *Income Taxes*, which applies to positions taken or expected to be taken in a tax return has been adopted. 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.
- n. Subsequent Events  
Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through June 13, 2012, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements.

**Note 3 - Investments**

Accounting standards have established a fair value hierarchy giving the highest priority to quoted market prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is categorized into three levels based on the inputs as follows:

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

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are not observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The fair value of investments held is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u> <u>12/31/11</u>	<u>Total</u> <u>12/31/10</u>
Corporate bonds	\$0	\$551,549	\$551,549	\$599,135
Fixed income funds	92,524	0	92,524	56,220
Equity funds	1,545,172	0	1,545,172	532,935
Certificates of deposit	<u>0</u>	<u>1,577,085</u>	<u>1,577,085</u>	<u>0</u>
	<u>\$1,637,696</u>	<u>\$2,128,634</u>	<u>\$3,766,330</u>	<u>\$1,188,290</u>

During the year ended December 31, 2011, investment income consisted of the following:

Interest and dividends income	\$86,260
Realized gain on investments	2,127
Unrealized loss on investments	<u>(594)</u>
	<u>\$87,793</u>

**Note 4 - Contributions Receivable**

At December 31, 2011, unconditional contributions receivables of \$403,908 were due as follows:

Year ended:	December 31, 2012	\$305,408
	December 31, 2013	50,000
	December 31, 2014	<u>50,000</u>
		405,408
Less: adjustment to fair value		<u>(1,500)</u>
Total		<u>\$403,908</u>

**Note 5 - Property and Equipment**

At December 31, 2011, property and equipment consisted of the following:

Furniture and equipment	\$354,145
Leasehold improvements	<u>494,621</u>
	848,766
Less: accumulated depreciation and amortization	<u>(651,544)</u>
Total	<u>\$197,222</u>

**Note 6 - Loan Payable**

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

**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, 2012	\$356,792
December 31, 2013	365,634
December 31, 2014	374,697
December 31, 2015	383,987
Thereafter	<u>161,624</u>
Total	<u>\$1,642,734</u>

**Note 8 - Temporarily Restricted Net Assets**

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

	Balance <u>1/1/11</u>	<u>Contributions</u>	Released from <u>Restrictions</u>	Balance <u>12/31/11</u>
Program restriction:				
Policy projects	\$167,028	\$0	(\$167,028)	\$0
Jackson attorney	11,958	0	(11,958)	0
Staff growth	500,000	0	(352,803)	147,197
Fellowships	6,871	28,693	(35,564)	0
Social marketing	0	50,000	0	50,000
Chief operating officer	<u>0</u>	<u>100,000</u>	<u>0</u>	<u>100,000</u>
Total program restriction	685,857	178,693	(567,353)	297,197
Time restrictions	<u>200,000</u>	<u>100,000</u>	<u>(50,000)</u>	<u>250,000</u>
Total	<u>\$885,857</u>	<u>\$278,693</u>	<u>(\$617,353)</u>	<u>\$547,197</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, which was 6% in 2011. Contributions for certain employees, who have been employed for a specified period of time, are made at an amount that is the greater of a specific formula or the standard discretionary amount. Total contributions to the plan for 2011 totaled \$186,581.

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