



**Audited Financial Statements**  
**December 31, 2014**



## **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, 2014, 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.

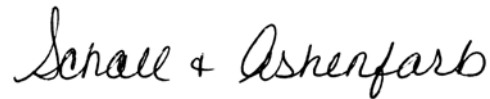
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated June 5, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.



---

Schall & Ashenfarb  
Certified Public Accountants, LLC

June 1, 2015

**CHILDREN'S RIGHTS, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2014**  
(With comparative totals for December 31, 2013)

	<u>12/31/14</u>	<u>12/31/13</u>
<b>Assets</b>		
Cash and cash equivalents (Note 10)	\$2,119,111	\$4,097,622
Investments (Note 3)	4,688,559	4,200,806
Attorneys' fees receivable	571,013	733,479
Contributions receivable, net of allowance (Note 4)	350,619	323,831
Prepaid expenses and other current assets	24,267	22,129
Fixed assets, net (Note 5)	82,770	139,579
Security deposit (Note 7)	<u>100,000</u>	<u>100,000</u>
Total assets	<u><u>\$7,936,339</u></u>	<u><u>\$9,617,446</u></u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$487,369	\$497,582
Deferred rent	<u>74,242</u>	<u>129,509</u>
Total liabilities	<u><u>561,611</u></u>	<u><u>627,091</u></u>
Commitments (Note 7)		
Net assets:		
Unrestricted		
Undesignated	3,474,499	5,450,875
Board designated reserve fund	<u>3,530,229</u>	<u>3,169,480</u>
Total unrestricted	7,004,728	8,620,355
Temporarily restricted (Note 8)	<u>370,000</u>	<u>370,000</u>
Total net assets	<u><u>7,374,728</u></u>	<u><u>8,990,355</u></u>
Total liabilities and net assets	<u><u>\$7,936,339</u></u>	<u><u>\$9,617,446</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, 2014**  
(With comparative totals for the year ended December 31, 2013)

	Unrestricted			Temporarily Restricted	Total 12/31/14	Total 12/31/13
	Board		Total			
	Undesignated	Designated Reserve Fund				
Public support and revenue:						
Attorneys' fees income	\$2,333,454		\$2,333,454		\$2,333,454	\$7,071,795
Contributions	753,477		753,477	\$320,000	1,073,477	1,580,967
Special event income (net of costs of \$70,890 for direct benefits to donors)	639,687		639,687		639,687	487,928
In-kind donations	53,500		53,500		53,500	5,000
Investment income (Note 3)	(338,334)	\$360,749	22,415		22,415	71,990
Program income	250		250		250	14,000
Net assets released from restrictions (Note 8)	320,000		320,000	(320,000)	0	0
Total public support and revenue	<u>3,762,034</u>	<u>360,749</u>	<u>4,122,783</u>	<u>0</u>	<u>4,122,783</u>	<u>9,231,680</u>
Expenses:						
Program services	4,585,964		4,585,964		4,585,964	5,132,449
Management and general	496,706		496,706		496,706	451,344
Fundraising	655,740		655,740		655,740	681,497
Total expenses	<u>5,738,410</u>	<u>0</u>	<u>5,738,410</u>	<u>0</u>	<u>5,738,410</u>	<u>6,265,290</u>
Change in net assets	(1,976,376)	360,749	(1,615,627)		(1,615,627)	2,966,390
Net assets - beginning of year	<u>5,450,875</u>	<u>3,169,480</u>	<u>8,620,355</u>	<u>370,000</u>	<u>8,990,355</u>	<u>6,023,965</u>
Net assets - end of year	<u><u>\$3,474,499</u></u>	<u><u>\$3,530,229</u></u>	<u><u>\$7,004,728</u></u>	<u><u>\$370,000</u></u>	<u><u>\$7,374,728</u></u>	<u><u>\$8,990,355</u></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, 2014**  
(With comparative totals for the year ended December 31, 2013)

	Program Services	Management and General	Fundraising	Total Expenses 12/31/14	Total Expenses 12/31/13
Salaries	\$2,562,884	\$252,133	\$231,927	\$3,046,944	\$3,673,962
Employee benefits and taxes	465,633	45,808	42,137	553,578	673,167
 Total salaries and related expenses	 3,028,517	 297,941	 274,064	 3,600,522	 4,347,129
Professional fees	24,128	74,430	252,801	351,359	210,629
Litigation costs	484,300			484,300	273,482
Research and legal library	55,953	925	1,208	58,086	59,889
Donated services				0	5,000
Events			37,936	37,936	62,922
Travel	332,225	1,934	17,746	351,905	426,717
Occupancy	350,481	51,923	25,962	428,366	426,548
Computer support and maintenance	121,773	13,608	11,299	146,680	142,694
Office supplies	123,698	19,765	23,954	167,417	189,770
Bad debt expense				0	1,500
Insurance	10,995	8,170		19,165	18,684
Training				0	4,850
Licenses and fees	7,414	21,124	7,327	35,865	43,556
 Total expenses before depreciation and amortization	 4,539,484	 489,820	 652,297	 5,681,601	 6,213,370
Depreciation and amortization	46,480	6,886	3,443	56,809	51,920
 Total expenses	 \$4,585,964	 \$496,706	 \$655,740	 \$5,738,410	 \$6,265,290

*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, 2014**  
(With comparative totals for the year ended December 31, 2013)

	<u>12/31/14</u>	<u>12/31/13</u>
Cash flows from operating activities:		
Change in net assets	(\$1,615,627)	\$2,966,390
Adjustments to reconcile change in net assets to net cash provided by/(used for) operating activities:		
Depreciation and amortization	56,809	51,920
Net realized loss/(gain) on investments	17,736	(23,195)
Unrealized loss on investments	88,678	68,054
(Increase)/decrease in assets:		
Attorneys' fees receivable	162,466	(130,771)
Contributions receivable	(26,788)	3,488
Prepaid expenses and other current assets	(2,138)	4,730
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	(10,213)	(339,128)
Deferred rent	(55,267)	(46,144)
Total adjustments	<u>231,283</u>	<u>(411,046)</u>
Net cash (used for)/provided by operating activities	<u>(1,384,344)</u>	<u>2,555,344</u>
Cash flows from investing activities:		
Purchases of property and equipment	0	(39,036)
Purchases of investments	(4,984,954)	(3,665,353)
Proceeds from sales of investments	4,390,787	3,726,078
Net cash (used for)/provided by investing activities	<u>(594,167)</u>	<u>21,689</u>
Cash flows from financing activities:		
Forgiveness of loan	0	(350,000)
Net cash used for financing activities	<u>0</u>	<u>(350,000)</u>
Net (decrease)/increase in cash and cash equivalents	(1,978,511)	2,227,033
Cash and cash equivalents - beginning of year	<u>4,097,622</u>	<u>1,870,589</u>
Cash and cash equivalents - end of year	<u><u>\$2,119,111</u></u>	<u><u>\$4,097,622</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, 2014**

**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.

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 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 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 for both 2014 and 2013.

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 \$53,500 and \$5,000 have been recognized during the year ended December 31, 2014 and 2013, 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, 2013, 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, 2011 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 1, 2015, 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, 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>

	<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>

The following summarizes investment income:

	<u>12/31/14</u>	<u>12/31/13</u>
Interest and dividends income	\$128,829	\$116,849
Realized (loss)/gain on investments	(17,736)	23,195
Unrealized loss on investments	<u>(88,678)</u>	<u>(68,054)</u>
	<u>\$22,415</u>	<u>\$71,990</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, 2015	\$282,619
December 31, 2016	<u>100,000</u>
	382,619
Less: allowance for doubtful accounts	(31,000)
Less: adjustment to fair value	<u>(1,000)</u>
Total	<u>\$350,619</u>

**Note 5 - Property and Equipment**

Fixed assets consist of:

	<u>12/31/14</u>	<u>12/31/13</u>
Furniture and equipment	\$390,645	\$390,645
Leasehold improvements	<u>501,211</u>	<u>501,211</u>
	891,856	891,856
Less: accumulated depreciation and amortization	<u>(809,086)</u>	<u>(752,277)</u>
Net fixed assets	<u>\$82,770</u>	<u>\$139,579</u>

**Note 6 - Loan Payable**

On August 25, 2011, the Organization received an interest free loan from a foundation in the amount of \$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 2013 and was included as a contribution in that year.

**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, 2015	\$383,987
December 31, 2016	<u>161,624</u>
Total	<u>\$545,611</u>

**Note 8 - Temporarily Restricted Net Assets**

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

	<u>December 31, 2014</u>			<u>Balance 12/31/14</u>
	<u>Balance 1/1/14</u>	<u>Contributions</u>	<u>Released from Restrictions</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>

	December 31, 2013			
	Balance		Released	Balance
	<u>1/1/13</u>	<u>Contributions</u>	from	<u>12/31/13</u>
			<u>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 restrictions	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>

**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 2014 or 2013.

**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.