



Audited Financial Statements
December 31, 2016

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, 2016, 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.

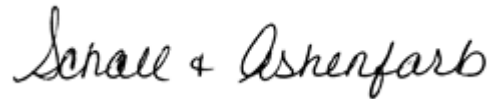
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated June 7, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Schall & Ashenfarb
Certified Public Accountants, LLC

June 26, 2017

CHILDREN'S RIGHTS, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016
(With comparative totals as of December 31, 2015)

	<u>12/31/16</u>	<u>12/31/15</u>
Assets		
Cash and cash equivalents	\$1,984,331	\$1,935,966
Investments (Note 3)	1,481,907	3,085,926
Attorneys' fees receivable	878,848	325,992
Contributions receivable, net of allowance	189,971	397,251
Prepaid expenses and other current assets	55,774	111,448
Fixed assets, net (Note 4)	238,374	38,311
Security deposit (Note 5)	168,510	100,000
	<u> </u>	<u> </u>
Total assets	<u><u>\$4,997,715</u></u>	<u><u>\$5,994,894</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$473,430	\$486,563
Deferred rent	143,377	9,623
Total liabilities	<u>616,807</u>	<u>496,186</u>
Commitments (Note 5)		
Net assets:		
Unrestricted		
Undesignated	1,634,932	1,729,781
Board designated reserve fund	2,699,549	3,493,238
Total unrestricted	<u>4,334,481</u>	<u>5,223,019</u>
Temporarily restricted (Note 6)	46,427	275,689
Total net assets	<u>4,380,908</u>	<u>5,498,708</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u><u>\$4,997,715</u></u>	<u><u>\$5,994,894</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, 2016
(With comparative totals for the year ended December 31, 2015)

	Unrestricted		Temporarily Restricted	Total 12/31/16	Total 12/31/15
	Board				
	Undesignated	Designated Reserve Fund			
Public support and revenue:					
Attorneys' fees income	\$1,761,736		\$1,761,736	\$1,761,736	\$710,940
Contributions	882,402		882,402	\$15,000	897,402
Special event income (net of expenses with a direct benefit to donors) (Note 9)	859,854		859,854		925,870
Rental income and other income	22,377		22,377	22,377	38,403
In-kind public service announcements	14,673,000		14,673,000		0
In-kind donations			0	0	37,000
Investment income (Note 3)	1,695	\$131,311	133,006	133,006	(31,452)
Net assets released from restrictions (Note 6)	244,262		244,262	(244,262)	0
Total public support and revenue	18,445,326	131,311	18,576,637	(229,262)	18,347,375
Expenses:					
Program services:					
Program services - general	3,595,235		3,595,235	3,595,235	3,447,079
Program services - in-kind	14,673,000		14,673,000	14,673,000	0
Total program services	18,268,235	0	18,268,235	0	18,268,235
Management and general	654,098		654,098	654,098	680,835
Fundraising	527,057		527,057	527,057	472,812
Total expenses	19,449,390	0	19,449,390	0	19,449,390
Change in net assets from operations	(1,004,064)	131,311	(872,753)	(229,262)	(1,102,015)
Non-operating activity:					
Loss on disposal of fixed assets	(15,785)		(15,785)	(15,785)	0
Total non-operating activity	(15,785)	0	(15,785)	0	(15,785)
Change in net assets	(1,019,849)	131,311	(888,538)	(229,262)	(1,117,800)
Net assets - beginning of year	1,729,781	3,493,238	5,223,019	275,689	5,498,708
Net transfer	925,000	(925,000)	0	0	0
Net assets - end of year	\$1,634,932	\$2,699,549	\$4,334,481	\$46,427	\$4,380,908

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, 2016
(With comparative totals for the year ended December 31, 2015)

	Program Services	Management and General	Fundraising	Total Expenses 12/31/16	Total Expenses 12/31/15
Salaries	\$2,098,346	\$287,995	\$171,956	\$2,558,297	\$2,461,441
Employee benefits and taxes	481,493	66,084	39,458	587,035	551,067
 Total salaries and related expenses	 2,579,839	 354,079	 211,414	 3,145,332	 3,012,508
Professional fees	104,672	40,535	199,714	344,921	446,723
Litigation costs	86,200			86,200	1,103
Research and legal library	72,130			72,130	66,343
Events			32,535	32,535	40,183
Travel	117,606	3,168	11,279	132,053	166,455
Occupancy	411,929	56,537	33,757	502,223	443,757
Computer support and maintenance	8,002	99,029	22,063	129,094	126,835
Office supplies	166,290	24,002	13,530	203,822	147,669
Bad debt expense		25,000		25,000	25,500
Insurance	9,355	12,300		21,655	18,440
Training	5,720			5,720	9,246
Licenses and fees	5,535	35,611	474	41,620	39,461
 Total expenses before depreciation, amortization, and in-kind	 3,567,278	 650,261	 524,766	 4,742,305	 4,544,223
Depreciation and amortization	27,957	3,837	2,291	34,085	56,503
In-kind public service announcements (Note 2i)	14,673,000			14,673,000	0
 Total expenses	 <u>\$18,268,235</u>	 <u>\$654,098</u>	 <u>\$527,057</u>	 <u>\$19,449,390</u>	 <u>\$4,600,726</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, 2016
(With comparative totals for the year ended December 31, 2015)

	<u>12/31/16</u>	<u>12/31/15</u>
Cash flows from operating activities:		
Change in net assets	(\$1,117,800)	(\$1,876,020)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation and amortization	34,085	56,503
Net realized gain on investments	(15,353)	(35,380)
Unrealized (gain)/loss on investments	(57,937)	213,241
Loss on disposal of fixed assets	15,785	0
Changes in assets and liabilities:		
Attorneys' fees receivable	(552,856)	245,021
Contributions receivable	207,280	(46,632)
Prepaid expenses and other current assets	55,674	(87,181)
Security deposit	(68,510)	
Accounts payable and accrued expenses	(13,133)	(806)
Deferred rent	133,754	(64,619)
Total adjustments	<u>(261,211)</u>	<u>280,147</u>
Net cash used for operating activities	<u>(1,379,011)</u>	<u>(1,595,873)</u>
Cash flows from investing activities:		
Purchases of fixed assets	(249,933)	(12,044)
Purchases of investments	(1,279,525)	(1,578,033)
Proceeds from sales of investments	<u>2,956,834</u>	<u>3,002,805</u>
Net cash provided by investing activities	<u>1,427,376</u>	<u>1,412,728</u>
Net increase/(decrease) in cash and cash equivalents	48,365	(183,145)
Cash and cash equivalents - beginning of year	<u>1,935,966</u>	<u>2,119,111</u>
Cash and cash equivalents - end of year	<u><u>\$1,984,331</u></u>	<u><u>\$1,935,966</u></u>
Supplemental disclosure of cash flow information:		
Total interest and taxes paid	<u><u>\$0</u></u>	<u><u>\$0</u></u>

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

CHILDREN'S RIGHTS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 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 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 \$75,000 and \$50,000 in 2016 and 2015, 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 were recognized during the year ended December 31, 2015. No such

similar services were provided in 2016, however, the Organization received a donated public service announcement that raised awareness of the foster care system. The public service announcement was aired across the country. The Organization was involved in determining and managing the message of the public service announcement, therefore the donated airtime has been recognized as a contribution, at the estimated fair value, which was \$14,673,000.

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, 2015, 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, 2013 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 26, 2017, 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.

o. New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU, which becomes effective for the December 31, 2018 year, with early implementation permitted, focuses on improving the current net asset classification requirements and information presented in the financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows.

In addition, FASB issued ASU No. 2016-02, *Leases*. The ASU which becomes effective for the December 31, 2020 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 has not yet evaluated the impact these standards will have on future 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, 2016</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Bond funds:			
Nontraditional Bond	\$139,629	\$0	\$139,629
Equities:			
China	67,725	0	67,725
U.S. Energy	45,192	0	45,192
U.S. Precious Metals	18,828	0	18,828
Pooled investment fund:			
Global Closed End Fund	60,420	0	60,420
Mutual funds:			
U.S. Market Neutral	456,296	0	456,296
U.S. Long-Short Equity	286,950	0	286,950
U.S. Multi-alternative	139,169	0	139,169
U.S. Large Blend Fund	1,038	0	1,038
Certificates of deposit	<u>0</u>	<u>266,660</u>	<u>266,660</u>
	<u>\$1,215,247</u>	<u>\$266,660</u>	<u>\$1,481,907</u>

	<u>December 31, 2015</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Bond funds:			
U.S. Nontraditional bond	\$662,441	\$0	\$662,441
U.S. Short-Term Bond	198,584	0	198,584
Equities:			
China	69,840	0	69,840
U.S. Energy	36,192	0	36,192
U.S. Precious Metals	24,696	0	24,696
Pooled investment fund:			
Global Closed End Fund	168,450	0	168,450
U.S. Closed End Fixed Income Fund	343,060	0	343,060
Mutual funds:			
U.S. Market Neutral	806,072	0	806,072
U.S. Long-Short Equity	237,141	0	237,141
U.S. Multi-alternative	334,306	0	334,306
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>

The following summarizes investment (loss)/income:

	<u>12/31/16</u>	<u>12/31/15</u>
Interest and dividends income	\$59,716	\$146,409
Realized gain on investments	15,353	35,380
Unrealized gain/(loss) on investments	<u>57,937</u>	<u>(213,241)</u>
	<u>\$133,006</u>	<u>(\$31,452)</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>12/31/16</u>	<u>12/31/15</u>
Furniture and equipment	\$200,735	\$402,689
Leasehold improvements	<u>97,742</u>	<u>501,211</u>
	298,477	903,900
Less: accumulated depreciation and amortization	<u>(60,103)</u>	<u>(865,589)</u>
Net fixed assets	<u>\$238,374</u>	<u>\$38,311</u>

Note 5 - 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, 2017	\$505,530
	December 31, 2018	505,530
	December 31, 2019	505,530
	December 31, 2020	505,530
	December 31, 2021	531,743
	Thereafter	<u>2,614,716</u>
Total		<u>\$5,168,579</u>

- b) During 2016, the Organization received a grant for \$10,000 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, 2016.

Note 6 - Temporarily Restricted Net Assets

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

	December 31, 2016			
	Balance <u>1/1/16</u>	<u>Contributions</u>	Released from <u>Restrictions</u>	Balance <u>12/31/16</u>
Program restriction:				
South Carolina Litigation	\$45,000	\$0	(\$45,000)	\$0
401(k) Contributions	88,971	0	(57,544)	31,427
New Computer Equipment	5,000	0	(5,000)	0
Juvenile Justice Program	<u>71,718</u>	<u>0</u>	<u>(71,718)</u>	<u>0</u>
Total program restrictions	210,689	0	(179,262)	31,427
Time restrictions	<u>65,000</u>	<u>15,000</u>	<u>(65,000)</u>	<u>15,000</u>
Total	<u>\$275,689</u>	<u>\$15,000</u>	<u>(\$244,262)</u>	<u>\$46,427</u>

	December 31, 2015			
	Balance 1/1/15	Contributions	Released from Restrictions	Balance 12/31/15
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>

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 matches 100% of the first 3% contributed by the employee and 50% on the next 2% contributed. Mandatory employer contributions to the plan during the years ended December 31, 2016 and 2015 amounted to \$80,000 and \$90,000, respectively.

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.

Note 9 - Special Events

A summary of the annual benefit is as follows:

	<u>12/31/16</u>	<u>12/31/15</u>
Event income	\$930,794	\$1,007,608
Less: expenses with a direct benefit to donor	<u>(70,940)</u>	<u>(81,738)</u>
	859,854	925,870
Less: other event expenses	<u>(32,535)</u>	<u>(40,183)</u>
Total	<u>\$827,319</u>	<u>\$885,687</u>